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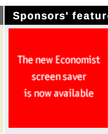

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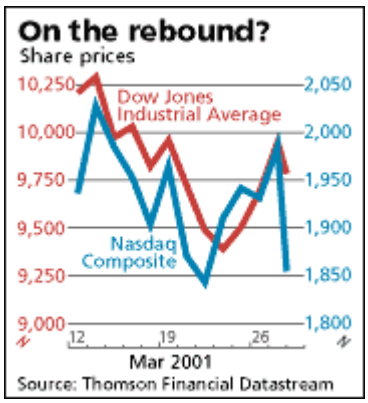
Business this week

Mar 29th 2001
From The Economist print edition

Market relief

After their dramatic falls over the past few weeks, **world stockmarkets** rallied briefly, as investors decided that they were oversold.

To widespread surprise, **American consumer confidence** rose in March, after declining for five months. The consumer confidence index jumped to 117, up from 109 in February. Although those hoping for an early interest-rate cut from the Federal Reserve were disappointed with the news, it boosted stockmarkets.



Corporate woes

Ericsson, a Swedish telecommunications giant, said that it would fire up to 3,300 workers in Sweden and Britain, freeze recruitment and reduce by half the number of outside consultants that it uses. **Nokia**, its Finnish rival, said that it planned to lay off 400 workers because of slow growth in the American fixed-broadband market.

Aiwa, a Japanese electronics maker just over half-owned by Sony, said it would cut its workforce by half and close eight of its nine factories in Japan, Malaysia, Indonesia and Wales. Instead it will outsource most of its production to contract manufacturers in low-cost countries.

Hyundai Engineering and Construction, a troubled subsidiary of the Hyundai group, secured an emergency rescue package worth 2.9 trillion won ($2.2 billion) from its creditors. There had been fears that it might be liquidated instead. As one condition for the deal, the founding family is expected to lose its control of Hyundai.

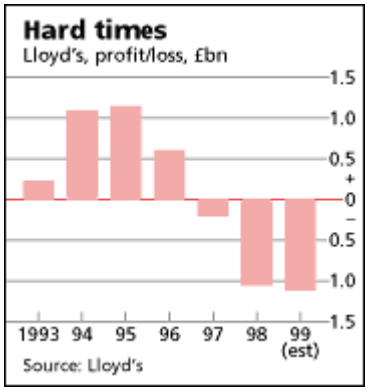
Enron, an American energy company, said that its agreement to sell its Portland General Electric division to Sierra Pacific Resources for $2 billion has only a 5% chance of going through given the energy crisis in California. Sierra Pacific Resources has been unable to sell enough assets to finance the deal, and has also been hit by rising energy costs.

Allianz, Germany's biggest insurer, is in talks to buy **Dresdner**, the country's third-biggest bank. Its hope is to form a new *bancassurance* giant. Allianz already has a 21% stake in Dresdner; last year it sponsored an abortive merger between Dresdner and Deutsche, Germany's biggest bank.

See article: Allianz eyes Dresdner

Lloyd's of London, the insurance market, said that it would lose well over £1 billion ($1.4 billion) in 1999 (it closes its accounts three years in arrears). That is more than the £1.06 billion that it lost in 1998. It added, however, that these two awful years should mark the bottom of the cycle.

Leaked drafts of a government report into **Robert Maxwell**'s 1991 flotation of Mirror Group Newspapers criticised the role played by Goldman Sachs, an American investment bank that sponsored the share issue.



Buying sprees

Tetra Laval, a Swedish packaging group, succeeded in its *euro*1.7 billion ($1.6 billion) takeover bid for Sidel, a struggling French packaging-equipment maker. Sidel's profits fell by 67% last year, but Tetra Laval likes its new technique for making plastic bottles.

Société Européene des Satellites, a Luxembourg satellite operator, plans to buy General Electric's satellite unit, GE Americom, for $5 billion. GE will keep a 25% equity stake in the combined company.

Johnson & Johnson, an American consumer health-care products company, agreed to pay about $12 billion in shares for Alza, a Californian drug-delivery specialist. Analysts questioned whether Alza is worth that much, and Johnson & Johnson's share price fell.

Investors punished the shares of **Singapore Telecom** after it announced plans to buy Optus, Australia's second-largest telecommunications carrier, from Cable & Wireless for up to $8 billion. SingTel offered combinations of cash and shares to Optus's shareholders. SingTel shares fell to a record low, despite the company's efforts to buy some of them back.

See article: SingTel's Lee v PCCW's Li

Easdaq, a struggling European stock exchange, has found a rescuer in the shape of America's Nasdaq. Nasdaq said it would spend *euro*70m ($63m) to buy a 58% stake in Easdaq. The acquisition will be the American exchange's third attempt to break into Europe. In a separate deal, Nasdaq sold $240m of its convertible debt to Hellman & Friedman, a buyout firm.

Liffe, a British derivatives exchange, and **Nasdaq** formed a joint venture to develop a market in stock futures. Trading in single-stock futures will become legal in America next December.

No thanks

Russia rejected a short-term loan facility from the International Monetary Fund, saying that it did not need the money and that it did not want to be under the "constant control" of the IMF. The IMF had offered Russia a precautionary credit facility in exchange for new policies such as tightened supervision of the banking system.

British insurers and pension funds attacked the directors of **Royal Bank of Scotland** for awarding themselves bonuses worth £2.5m ($3.6m) as a reward for winning their takeover battle for National Westminster Bank. They want a promise from the Scots never to make such payments again. George Mathewson, executive deputy chairman, said that the bonuses would not even give him "bragging power in a Soho wine bar".

Abbott Laboratories, an American drug company, announced that it will sell two of its AIDS drugs and its HIV diagnostic test in sub-Saharan Africa at cost price. The drugs will sell for less than $1,000, about a third of the current price. Abbott is the latest in a line of drug companies that have bowed before public pressure to cut AIDS drugs prices in Africa.

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The world this week

Mar 29th 2001
From The Economist print edition

Hecatomb

Reuters

Hoping to halt the spread of **foot-and-mouth** disease, Britain called in the army to help with the mass slaughter and burial of sheep and cows on and around infected farms. The British also got EU approval for vaccination, a (possible) stopgap to allow time for the slaughter. The Dutch are already using it.

See article: Foot-and-mouth disease

In northern **Macedonia**, troops blasted buildings and woods round Tetovo and near the border with Kosovo, claiming a victory over ethnic-Albanian rebels. Western governments voiced support for Macedonia, but urged political concessions to the ethnic Albanians. In Kosovo, Hans Haekkerup, the Danish official who runs the province for the UN, said province-wide elections should be possible by the end of this year.

See article: Charlemagne: Arben Xhaferi, Macedonia's pivotal Albanian

Three bombs in southern **Russia**, blamed on Chechen rebels, killed a score of civilians. President Vladimir Putin replaced his defence minister with a hawkish former KGB man, Sergei Ivanov.

See article: Russia's Chechen war drags on

The **Mir** space station plunged fierily, but harmlessly, to earth.

The Freedom Party's vote in a Vienna city election dropped to 20%. The party's former *Wunderkind*, **Jörg Haider**, now busy as state governor of Carinthia, may reassume the party's leadership.

See article: A blow to Austria's Jörg Haider

State elections in **Germany**, in Baden-Württemberg and Rhineland-Palatinate, gave encouragement to both big parties, but brought reverses for the Greens, Free Democrats and far-right Republicans.

See article: Mixed signals in German elections

France's President Jacques Chirac refused a summons to testify before a tribunal investigating corrupt financing of his party in Paris in the years when he was mayor.

Meeting in Sweden to talk about market-opening, leaders of the **European Union** agreed on little. Notably, France refused to open its energy markets fully.

See article: The EU's illiberal summit

Kyoto dumped

The head of America's Environmental Protection Agency, Christie Whitman, confirmed that the Bush administration had "no interest" in implementing the **Kyoto accords** on climate change, which the United States has signed but not ratified. In Japan, Canada and Europe governments reacted with alarm and outrage.

Reform of American **campaign finance** seemed to come closer with the defeat of an amendment to the McCain-Feingold bill that would merely have limited, rather than banned,"soft-money" donations to political parties. But the future of the whole bill was uncertain.

Regulators at last raised the ceiling on the retail price of **electricity in California**, which had been left frozen while wholesale ones soared. Utilities sharply lifted their prices to big customers.

See article: California puts up electricity prices

Canada's four opposition parties joined to call for an inquiry into the business dealings of the prime minister, **Jean Chrétien**, relating to a golf course and hotel. He denies any conflicts of interest.

See article: A whiff of scandal in Canada

After marathon sessions, the lower house of **Argentina**'s Congress gave Domingo Cavallo, the new (and former) economy minister, emergency powers to alter taxes and tariffs, but not to cut government jobs, wages or pensions. Senate backing was expected.

AP

See article: Cavallo's remedies for Argentina

In **Mexico**, leaders of the Zapatist rebel movement addressed members of Congress in support of a bill that would strengthen the rights and autonomy of the country's indigenous peoples.

See article: A slow start for Fox in Mexico

Guyana's incumbent president, Bharrat Jagdeo, was declared the winner of a much-observed election. Opposition supporters staged small riots.

In its annual navel-gazing display, **Hollywood** awarded its best-film and best-actor Oscars to box-office heavyweights "Gladiator" and its star, Russell Crowe.

See article: Artswatch: The Oscars

Terror v terror

Israeli helicopters blasted the headquarters and training camps of Yasser Arafat's bodyguards in Ramallah and Gaza. This followed three Palestinian bomb explosions in **Israel**, one of which killed two teenagers. The United States, having earlier vetoed a UN Security Council resolution calling for UN observers to protect Palestinian civilians, called on both sides for restraint. Both sides carried on sporadic shooting.

Meeting in Amman, Arab League countries failed to agree on a policy towards **Iraq** but decided to speed up payments to the Palestinians.

See article: The Arabs' unworldly summit

President Daniel arap Moi of **Kenya** sacked Richard Leakey and most of his team of civil servants appointed to oversee the reform of the civil service and stop corruption.

See article: Destructive policies in Kenya

Slightly sorry

President Abdurrahman Wahid told the **Indonesian parliament** he was sorry for "inappropriate behaviour" in his financial affairs. The apology was not thought enough to stop impeachment moves.

See article: Wahid's impeachment peril

Xanana Gusmao resigned as head of **East Timor**'s interim parliament, complaining of political squabbling. He had been expected to become the first president when East Timor, once Portuguese, then seized by Indonesia and now UN-run, gains independence.

In Japan, a court overturned a 1998 compensation award—$2,300 apiece—to South Korean women forced into sex slavery during the second world war.

India's population was estimated to have gone over the 1 billion mark.

See article: A billion Indians

Afghanistan's **Taliban iconoclasts** proudly displayed to journalists what remained of two huge and ancient statues of Buddha, blown to pieces in the name of Islam.

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Let the huddled masses in

Mar 29th 2001
From The Economist print edition

HIJACK a plane in Afghanistan and fly it to London. Board a rusting tub in Turkey and be wrecked off the coast of Italy or washed up in France. Camp in a container for weeks until your ship is unloaded in Canada. Hang to the wheel of a jumbo jet and hope not to freeze or suffocate. Splash across the Rio Grande. Float in a rubber ring to Florida. Walk the Sahara and sail to Spain. If you live in a miserable part of the world, just do something to reach a place more promising.

Such desperate acts are becoming routine as, each year, many hundreds of thousands of people who fear for their lives or hunger for better ones trek to safer and richer countries. The numbers rise and fall, but the trend is broadly upwards as the world's population grows, and travel and communication get cheaper. Accurate figures are hard to find, but a million people or more are thought to pitch up in America each year, some legal, some illegal. Where legal migration is severely restricted, as in much of the European Union, migrants try to get around the rules by applying for political asylum instead. Last year around 450,000 asked for sanctuary in 25 European countries. Many more slip in without being counted. And the supply will not dry up.

But as the numbers rise, so does unease in rich countries. One reaction is to put up stronger barriers and force migrants to more dangerous measures. Along America's border with Mexico higher fences and more aggressive patrols displace migrants on to riskier desert routes. Last week the sole survivor of a ship that failed to reach America from the Dominican Republic told how people on board had resorted to cannibalism to stay alive. In Europe too, tighter borders encourage dangerous smuggling of people by criminal gangs who pack hapless travellers into rusty ships, airtight lorries and even beside the wheels of the Paris-London Eurostar.

The open way out

This mess helps fuel hostility to genuine asylum-seekers, who are few in number but do need protection from political persecution. At the same time immigration has become a potent political subject. From Australia to Austria, rabble-rousing politicians have benefited from public worries that foreigners add to crime, unemployment and welfare fraud. Fairly moderate leaders in Germany say mothers should be paid to have babies, so that immigrants do not overwhelm "true" Germans. Japan currently allows only *nikkeijin*, foreigners of Japanese descent, to come in to work as unskilled labourers. In Britain the opposition Conservatives have said that outsiders who arrive uninvited should be sent to prison.

A better response would be to admit that there are compelling moral and economic arguments why more people from poor countries should be allowed to move to rich ones. The world has made the movement of goods, money and ideas freer, but not, strangely, the movement of people. It is both right to give desperate people sanctuary and rewarding to welcome new citizens. History has shown that immigrants bring ideas, vigour and ambition, as well as their mere labour.

Some welcome debate has begun on this issue. Mexico's president, Vicente Fox, has made a good start with George Bush, on the role of guest-workers in America. The president of the European Commission, Romano Prodi, recently highlighted Europe's need for foreign labour. And some countries are adopting more flexible attitudes, albeit because of a rather narrow problem: a skills shortage. Britain has introduced fast-track work permits in industries where shortages are worst. France has eased rules that made it almost impossible for companies to hire foreigners. But progress needs to be faster. In both manual and service industries, many European countries have shortages of skilled labour that are getting worse as their economies grow and their people age (see article).

Countries such as Italy and Ireland, which once benefited by exporting their burgeoning populations, now urgently need immigrants to fill jobs at home. France cannot recruit enough qualified locals to maintain its public buildings or serve in its restaurants. Germany's employers' union has said 1.5m more skilled workers are needed there. Australia already relies on foreign labour for a quarter of its workforce, Switzerland for nearly a fifth, and the United States for about a sixth.

Why not fill more of these jobs with local workers? It is true that America has low unemployment, but in the EU some 14m people are without jobs. Surely they could be used. The reality is more complicated. The benefits of immigration do not arise only when there is full employment; and it is wrong to assume that countries have a fixed amount of work to be done, so that foreigners are needed only when there is a surplus. Immigrants create jobs as well as filling them; they add to overall economic activity.

That is more true in the longer than in the shorter term, of course: more immediately, immigrant workers are in especially high demand when there are particular labour shortages. The Guatemalan who strangles chickens on a Delaware poultry farm is as much testimony to this fact as the Indian computer programmer in Silicon Valley. Moreover, in Europe, it is not only low wages that deter locals from picking fruit and vegetables, but the low status of such jobs.

As more countries are finding, migrants have a benign effect on rich economies. Huge numbers of migrants have been drawn to America in the past two decades, and they have helped fuel economic growth. A recent report suggested that, although migrants may impose costs on individual states which provide schooling and other welfare, the country as a whole gains from them, by about $10 billion a year: not a huge amount, but not a minus. A government report in Britain in January said that migrants were not a drag on welfare, but contribute to its economy and culture.

What of the costs? There is a risk, especially when immigration policies target only the highly skilled, that the best talent will be drained from poor countries to rich ones. It is anyway a misconception to think that only post-graduate immigrants can be of value: many of the immigrants who have fuelled Silicon Valley were educated in America. But also the risk is that doctors or teachers who are educated at great cost in the poor world will move to richer parts, making it tougher to improve health and education at home. That is a worry, but note that it is made worse by tight immigration laws: once you have climbed over a high fence, you are less likely to go home again once you've made money or gained experience, for fear that you can never return. A more open regime would encourage temporary residence, allowing skills to flow more freely to and fro. And migrants do send back remittances to their families and friends: at $100 billion a year, overall, it is more than a match for overseas aid.

Immigration cannot be opened overnight. Even rich countries would struggle to cope with a sudden flood of people. But countries should announce much more generous quotas, phased over many years. That would avoid a rush, but offer hope to those who want to move. It is also up to governments to design education and other policies to ease integration. But the overall issue is clear: just as the free movement of capital, of goods and of profits benefits economies, so does the free movement of labour. For their own good, rich countries should be far less stingy about letting people in.

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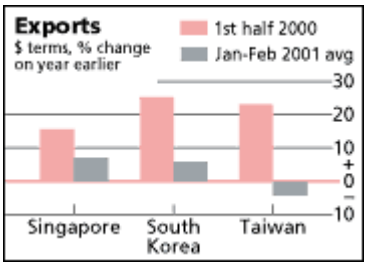
The danger of delay

Mar 29th 2001
From The Economist print edition

Asia's emerging economies would be better able to cope with a sharp slowdown in America if they had completed their structural reforms

WHEN your roof leaks during a torrential thunderstorm, your husband promises to fix it—tomorrow. Then for the next month the sun shines, the deckchair on the patio beckons, and nothing is done. The roof leaks even more seriously during the next storm. Could this prove to be East Asia's fate? Almost four years after its 1997-98 financial crisis began, another economic storm is approaching, this time from the downturn in America. Yet Asian governments have failed to finish the repair job left from their previous crisis. If only they had listened to their friends and family.



At the height of the crisis, the IMF, supported by many economists, warned Asian governments that their economies would never recover fully unless they undertook widespread structural reforms. If not, they argued, their economies would be condemned to a lost decade, rather like Latin America's in the 1980s. To be fair, most governments made a start on reform. But then many of their economies bounced back far more swiftly than anybody had expected. In 1999 and 2000 the troubled Asian economies enjoyed average GDP growth of almost 7%. South Korea grew by an average of 10%. Governments in the region patted themselves on the back, and concluded that structural reforms could wait.

Past repair-time

That was the wrong conclusion to draw. East Asia's spectacular rebound owed much to America's economic boom. Exports to America account for 10-25% of Asian economies' GDPs. About half of these have been of information technology (IT) equipment. Asian producers were therefore well placed to take advantage of America's IT investment boom. That boom is now turning to bust and American firms are cutting their investment—and hence their imports from Asia (see article). In the first two months of this year, Taiwan's exports were 4% lower than a year ago, compared with annual growth of 23% in the first half of 2000. If America goes into recession, Asia's exports will collapse.

This is not to suggest that Asia is heading for another financial crisis. In macroeconomic terms these economies are in much better shape than in 1997. Most have abandoned their old exchange-rate pegs, are running large current-account surpluses, and have built up ample foreign-exchange reserves. Yet a slump in their exports to America (and to Japan, which also teeters on the brink of recession) would still make a big dent in their growth.

Completing the prescribed structural reforms would not have stopped Asia suffering from an American recession, but it would have given governments more room to offset the effects. The recovery has been overly dependent on exports; domestic demand has been restrained by balance-sheet weaknesses in banks and companies. Banks have made slow progress in writing off bad loans, and companies have been equally slow to sell off assets and reduce debts. Unviable firms have foolishly been kept alive with bailouts, rather than being broken up or allowed to go bust. Governments have also failed to deregulate services, which would help to spur domestic demand.

These continuing structural flaws will now make it harder for Asian governments to cushion their economies against a slump in exports. In particular, fragile financial sectors and companies' weak balance sheets will make monetary policy less effective. As Japan has discovered, lower interest rates can do little to boost domestic demand if banks, saddled with bad loans, remain reluctant to lend, while debt-laden firms remain reluctant to borrow.

It is, of course, possible that the sun will come out tomorrow and America's economy will resume its rampant growth, pulling Asia up with it. But it would be foolish to count on it. Over the past two years, governments should have seized the opportunity of strong external demand to push ahead with reform.

It is much harder to repair the roof when it is raining.

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Don’t do it, Tony

Mar 29th 2001
From The Economist print edition

It would not be in Britain’s interests for Tony Blair to hold a general election on May 3rd. It might not even be in his—though that is for him to judge

Reuters

WHAT a curious non-constitution Britain has. The laws state the maximum length of a government’s term of office (five years) and the maximum amount of time allowed between the dissolution of parliament and the holding of a general election (17 days, excluding weekends, public holidays and the weekdays either side of such holidays). Other than that, the decision about when to call an election is entirely a matter for one person: the prime minister. Yes, he has to make a formal request to the queen, but as in other constitutional matters her role is purely ceremonial. And so a guessing game ensues about what the prime minister might be thinking. The interests of the country are deemed irrelevant.

That’s politics, you might say. So it is, but that is usually a term of insult, and this case is no exception. In the next few days, Tony Blair will decide whether or not to call an election to be held on May 3rd. That is the date around which the guessing game has revolved for months. Yet, from the nation’s point of view, there is not the slightest need for a general election: the government’s term of office still has a year to run, and its 179-seat majority in the House of Commons means that it has no difficulty in governing. It has no need of a new mandate, for it remains highly popular.

Meanwhile, the television news each night is filled with pictures of slaughtered animals, distraught farmers and empty hotels: foot-and-mouth disease (see article) remains disturbingly out of control. It would be an exaggeration to describe it as a national crisis, but it is a serious problem, which requires serious attention, and which is bad for Britain’s image overseas. Foot-and-mouth would not have any serious effect on people’s ability to vote or campaign; indeed the lack of candidates knocking on farmers’ doors might well be a blessed relief to them. But, at such a time, a country could reasonably expect its government to concentrate on solving the problem, and to avoid deliberately bringing about unnecessary distractions—such as a general election.

The betting is going the other way: the assumption is that Mr Blair will indeed call an election. The logic of the government’s popularity works, of course, in the opposite direction from that of the national interest—a popular government wants to cash in on the fact, and secure a second term, for its popularity may not last. The last Labour prime minister before Mr Blair, James Callaghan, is believed to have lost the election in 1979 to Margaret Thatcher’s Tories because he had failed to call it the previous October. Labour partisans who are spooked by this analogy might, however, care to recall the date on which Mr Callaghan lost. It was May 3rd.

The burden of proof

That was a cheap shot. But what all should recall is on which side of this argument the burden of proof should lie: on those who wish to hold an election. It will be up to Mr Blair to explain why this election is really necessary.

If his explanation goes down badly, and if people vote against him for having had the bad taste to call a poll during this epidemic, then perhaps justice will have been done. The only people to suffer would be Labour MPs who lost their seats, and Mr Blair who lost more of his majority than he needed to. Yet the country would still have suffered: an election would have been held, and a government elected, at a time of temporary troubles but which left that government permanently weaker than it needed to have been.

Perhaps, Mr Blair will be wondering, that could also be the case if he waits until October, by which time economic storms could be blowing in from America. Yet in the polls Labour now scores better than its rivals even on economic management, and would be likelier to be trusted to steer the ship through troubled waters. “Confidence or cynicism”, Mr Blair said last October at his party conference, would be the choice facing the electorate. So which is it: cynicism about a government that rushes to the voting booths, or confidence in one which responds with dignity to an emergency?

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From Lisbon to Stockholm

Mar 29th 2001
From The Economist print edition

European Union leaders appear to be slowing down economic liberalisation just when they should be speeding it up

HOW different it all seemed a year ago. At the “dotcom summit” in Lisbon last March, the EU’s heads of government grandly set the stage for a raft of liberalising measures that would make Europe’s economies more flexible and dynamic. The professed hope was to unleash the old world so that it could catch up with the new world’s huge lead in technology and the “new economy”. Yet at their stock-taking summit in Stockholm last weekend, EU leaders failed miserably to deliver on the promises made at Lisbon.

EPA

Thus, hopes that the EU’s electricity and gas markets would be fully liberalised by 2005 were dashed by implacable French opposition to any deadline. A plan to streamline the patenting process by promoting EU-wide rules fell foul of linguistic objections from Spain. Faster postal deregulation was stymied by France and Britain. And an integrated air-traffic-control system was blocked by a continuing dispute between Spain and Britain over Gibraltar.

The only crumb of comfort was a summit endorsement of the Lamfalussy report on the regulation of European securities markets. This was hailed as a landmark agreement to create a single financial market. In fact, it is no such thing. All the summit has approved is the establishment of two new committees that might speed up the legislative process—and even that procedural change could come unstuck in the face of opposition from the European Parliament. The task of actually agreeing to market-opening measures in finance still has to be tackled; and the Lamfalussy report deals only with wholesale, not retail, finance. Genuine cross-border banking or insurance-selling remain years away.

Losing momentum

Why has liberalising Lisbon been followed by stationary Stockholm? There are three answers. The first is that, in Lisbon, a free-market group led by Britain’s Tony Blair and Spain’s Jose Maria Aznar managed to hijack the agenda in favour of faster liberalisation, without the French and Germans quite realising what they were signing up to. At Stockholm the tables were turned. Lionel Jospin, the French prime minister, summed up his defence of the status quo by declaring witheringly that “liberalisation is not an end in itself, but a tool.”

The second answer is a procedural failure. In the enthusiasm of Lisbon, EU leaders thought that they had invented a new fast-track approach to liberalisation. Summit meetings would fix specific targets and deadlines, and peer-group pressure would force legendarily slow EU and national bureaucracies and legislatures to meet them. But Stockholm has shown that this will not succeed. Rather than succumbing to the liberalising agenda, most governments (and not only the French) remain determined to protect what they see as their special interests. When they succeed, they trumpet a “victory”. This is precisely the opposite of how peer-group pressure is meant to work.

The third answer is that the underlying mood in Europe has altered because of the changed economic outlook. A year ago, European leaders were awed by America’s economic and technological record, and cowed by their own relatively inferior performance. But now that the Nasdaq bubble has burst and Europe’s economies seem temporarily to be outpacing America’s, the mood is different. There is less urgency, it seems, about making painful reforms of Europe’s social model, or of its inflexible labour and product markets.

This is risky. The French president, Jacques Chirac, defended what he called Stockholm’s “limited

ambitions" by noting that Europe had changed hugely in the past five or ten years. He is right: Europe has been liberalising, albeit slowly. But the process will always run into resistance. Unless the momentum of liberalisation is kept up, its broad benefits will remain too far off for the narrow vested interests to be easily overcome. And the hopes that Europe's single currency would foster a newly competitive economy may be dashed too. EU leaders must rediscover their Lisbon mood, fast.

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Putin's Russia

Mar 29th 2001
From The Economist print edition

After a year in office, the oomph seems to be going out of Vladimir Putin's presidency

REMEMBER Russia? After a period in which Russian news had slipped off the front page, it is back. A recent string of terrorist bombs and this week's sacking of the defence minister are a reminder that a fierce civil war is still going on in Chechnya. A rash of diplomatic expulsions triggered by the exposure of a Russian spy network in the United States has brought echoes of the cold war. The non-news, however, may be even more worrying. The signs that Russia is becoming a more decent society, one in which dissent is tolerated and the rule of law prevails, are waning. Some signs, indeed, point the other way. A year ago, when Vladimir Putin was elected to the presidency, many hoped that he would revive the reform effort that had virtually died beneath the palsied hand of his predecessor, Boris Yeltsin. But Mr Putin's gloss is wearing off, and with it many of those early hopes.

Reuters

Mr Putin is still popular. Though the lot of most Russians remains pretty miserable, over three-quarters of them still, apparently, think he is doing well. And he can certainly point to some achievements. He quickly assembled a team of ministers sprightlier and more liberal in economics than its predecessors. He encouraged the government to write a balanced budget that was passed into law faster than any post-Communist one before it. The new, flat-rate income tax (at 13%) took effect in January, and may start to bring in more revenue. He has curbed the powers of Russia's regional bosses, many of whom had become a law unto themselves. He has proposed big cuts in the size of the armed forces and got parliament to sign several arms-limiting treaties. He has also talked sensibly about the need to clean up the courts, impose the rule of law, protect property rights and make land easier to buy and sell. And he has put a squeeze on several of the tycoons who seemed to have Mr Yeltsin in their pockets.

But Mr Putin, the former KGB man, is still unconvincing as a democrat. He seems determined to bend the media, especially television, to his will. He is quick to treat criticism as treachery. His friends in the FSB, the domestic arm of the old KGB, are back in business. His foreign policy seems pragmatic one minute and malign the next (stand by for resumed arms sales to Iran). Most disgraceful of all is his policy towards Chechnya, whose attempt to secede he has fought with such ruthlessness—to the initial delight of the voters. Yet his policy, which is to crush the Chechens, no matter how brutally, is not working. The only prospect of peace lies in a political settlement, which should have been pursued long before the recent bombs went off.

At the same time, Mr Putin is showing less zeal for domestic reform. The land-reform bill whose first stage passed last month was a fudge. Efforts to overhaul the electricity industry and to bring the corrupt and powerful national gas-monopoly, Gazprom, to account may be stalling. Mr Putin's economic team seems at odds with itself; and his prime minister, Mikhail Kasyanov, is proving more of a short-term fixer than a reformer. After appearing keen to enact laws that would, for instance, prevent police searches without a warrant, the government has backed down before the protests of prosecutors and other conservatives. The interior and defence ministers appointed this week look pretty illiberal.

Gather ye rosebuds

Mr Putin's admirers, some of them respectable democrats, say that the balance-sheet is still positive; he has had only a year in office, and must pick his way through a minefield of conflicting interests. He cannot, they say, entirely ignore the wishes of the voters, many of whom are disillusioned by what they consider the chaos of democracy and the battering of national pride that has come with it. Moreover, however ugly the hounding of the media, the market's pluralism, the buzz of non-state activity across the entire gamut of society and the rise of a go-ahead younger generation that feels part of the wider world

mean that no Russian ruler could ever repeat the repression of the past, even if he wanted to.

Perhaps. Still, Mr Putin would be unwise to let Russia slip back into autocratic drift. He is unlikely to get much help from the West until he has made far more progress towards creating a society where laws are respected—by governments as well as people. That means, among other things, respecting the independent media and ceasing to kill Chechens. In any event, he cannot expect his luck to hold out indefinitely. It is largely the high price of oil that makes Russia's economy look relatively strong. This in turn helps to underpin Mr Putin's popularity. But the price of oil can go down, as well as up—as can politicians' ratings in the opinion polls.

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Some realism for Mercosur

Mar 29th 2001
From The Economist print edition

Better a genuine free-trade area than a phoney customs union

Get article background

THE timing could not have been worse. On March 26th, Mercosur, Latin America's main trade block, based on Argentina and Brazil, celebrated its tenth birthday. Only three days earlier, Domingo Cavallo, Argentina's new economy minister, had ordered a radical and unilateral change in his country's import tariffs—a measure in flat contradiction of both the letter and spirit of Mercosur.

Does that matter? Argentina is in a wrenching recession, and an arrangement that fixes its peso at par to the dollar means its policy options are limited; devaluation is ruled out. Mr Cavallo's tariff changes, which involve "temporarily" abolishing duties on the import of capital goods from outside Mercosur and raising those on consumer-goods imports to 35%, are intended to mimic a devaluation, speed growth and thus dispel the spectre of a debt default.

Free-traders may object that raising tariffs on consumer goods will do little to make Argentine business more competitive. But there is another problem: Mercosur is a self-proclaimed customs union, like the European Union (EU). So not only do its members enjoy free trade with each other, but they aspire to share a common external tariff (14% for capital goods) and common foreign-trade policies.

Given Argentina's problems, such objections seem trivial. So Brazil thought. Having suffered a tumultuous devaluation in 1999, its government is understanding of its neighbour's plight, and it will back Argentina's request for a "temporary" waiver from Mercosur's common tariffs. Even so, Argentina's measures look like one setback too many for Mercosur—or at least for its aspiration to become a customs union.

In its first few years the block, which also includes Paraguay and Uruguay, achieved spectacular success. Trade among its members soared; so did investment. Chile and Bolivia joined Mercosur's free-trade area, though not its customs union. The region is binding itself together with cross-border roads, electricity grids and gas pipelines. Mercosur has prompted salutary political co-operation, too. That has helped to forestall two attempted coups in Paraguay.

But progress has stalled recently, as has trade (see article). Different exchange-rate regimes (Brazil's floating *real*, Argentina's fixed peso) do not help. Nor do non-tariff barriers. Though almost all trade within Mercosur is now duty-free, almost none of the "deepening" associated with a customs union has happened. The group has not agreed on common policies on matters ranging from customs codes to competition policy and investment subsidies; most disputes are still settled by presidential intervention rather than agreed rules.

Any deepening of co-operation involves a loss of sovereignty, and takes time, as the EU has shown. But the proposed Free-Trade Area of the Americas (FTAA), an idea enthusiastically backed by George Bush, means that Mercosur faces some urgent decisions. Talks for an FTAA, which are supposed to conclude in 2005, may get a boost next month from a meeting of 34 presidents from the Americas in Quebec city.

For President Fernando Henrique Cardoso of Brazil, Mercosur is "our destiny" whereas the FTAA is a mere "policy option". He has a point. Closer ties—of trade, politics and infrastructure—are clearly beneficial to Mercosur's members. And Brazil is right that any FTAA which did not involve dismantling such protectionist devices as the United States' farm subsidies and anti-dumping duties might not be worth having.

Time for Brazil to choose

Leave aside that Brazil's reasonable doubts about an FTAA have too often seemed like foot-dragging. The problem for Mercosur is that, despite its rhetoric, it is chiefly Brazil that has blocked deepening. That is paradoxical, for it was Brazil which insisted that Mercosur should be a customs union, with a relatively high tariff to protect its capital-goods industry. But Mercosur is steadily moving away from, not towards, common tariffs—part of a wider, and credibility-destroying, divorce between its rules and its reality.

So here is a proposal. Let Brazil lead a swift move to deepen Mercosur. If not, the block should drop the pretence that it is a customs union. Let Mercosur at least be a genuine free-trade area, with clear rules that are adhered to, and that ensure that businesses in any of its member states have unfettered and equal access to the others' markets. It is a less lofty ambition, but a worthy one all the same.

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Letters

Mar 29th 2001
From The Economist print edition

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Welcome change

SIR—William Hague's description of Britain becoming a foreign land is true (Bagehot, March 10th). However, he should welcome it and commend it to voters. Every effective country should become a foreign land from one generation to the next, and they should feel challenged and even a little uncomfortable with the process.

Look what happens if you try to maintain your culture and institutions unchanged. We once admired and were even afraid of Japan with its world-beating export industries and love of technology. However, this was just a shell. Inside, Japan was looking back, with unchanging institutions and attitudes controlled by vested interests. The result: a decade of stagnation and deflation and, worse, no mechanisms available to effect change. Mr Hague and the Conservatives need to define their vision of our next "foreign land" so that voters actually have some choice.

BOB CRANMORE
Lancing, West Sussex

Off course

SIR—You are off course to suggest that Warren Buffett opposes the repeal of estate taxes in America because insurers will lose estate-tax planning business (Face value, March 17th). None of Berkshire Hathaway's subsidiaries sell life insurance or estate-tax planning products. They mostly sell car insurance and reinsurance. "You should not believe everything you read or hear about Berkshire even when it is published or broadcast by a prestigious news organisation," as Mr Buffett said in his most recent letter to shareholders.

BILL RIGBY
New York

Voucher plans

SIR—Your recent thoughts on school vouchers made me think I was reading some other, lower quality, publication ("An idea for Mr Bush", March 10th). You draw an analogy between the competition car makers face—leading to an increase in the quality of their products—and competition through vouchers. This is a bad analogy because competitive markets require that there be winners and losers and, in this example, it is a good outcome for an inferior car manufacturer's goods to remain on the forecourts, unsold and unwanted. Schoolchildren are not cars. The goal in public schools is not to pick winners; it is to make all children winners. If the schools fail to do this, then they need to be fixed, not stripped of a portion of their (no doubt best) students.

Also, you suggest correctly that many black parents are getting a raw deal from public schools ("Blacks *v* teachers", March 10th) but describe how this frustration has led to growing support among blacks for a solution that realistically can only help a small minority of those getting a raw deal rather than concentrating on suggesting workable ways to improve these public schools.

What evidence do you have that vouchers work? That the performance of a number of handpicked students improved when they received scholarships to attend private schools (much different from George Bush's scheme)? And what of the 90%-plus of students that were left behind? You do claim that voucher programmes do not hurt schools. The proof? Test scores went up in a district where vouchers

were not even implemented. The articles sound like an opinion piece written by a Republican consultant.

ROBERT PARKER
Arlington, Virginia

SIR—While few would argue that the public-school system of Washington, DC, is not in a state of crisis, your argument in favour of vouchers contains one glaring omission—the role of the Christian Right in Republican politics. Far from disinterested "compassion" for poor inner-city school children, the religious right has been pushing for vouchers for years in order to stifle public funding for an education system they feel is a threat to conservative values.

Using taxpayers' money to fund private religious indoctrination will strike another blow against the doctrine of church-state separation, a primary principle on which our democracy is based. This is not to say that alternatives to failing public schools should not be explored, but any legislation considered must exclude federal funding of religion.

BART EVERTS
Camden, New Jersey

SIR—In your analysis of the voucher plan—forgetting for a moment that most states hold that such plans are illegal—you overlook two critical issues. First, most of the blueprints for these plans do not provide enough money for poorer Americans to pay for a private-school education. Giving parents $1,000 does little to offset the cost of a school that charges thousands of dollars.

Second, Mr Bush's plan will destroy the American public-school system by stealing its resources. Once enough money is taken away from the schools, they will not be able to compete. Voucher plans will destroy public schools, while not providing enough money for ordinary Americans to afford a private school, thus obliterating any choice at all.

JOSHUA WISCH
Bethesda, Maryland

The next big thing

SIR—I agree that the crash of the so-called new economy can be attributed to overinvestment in shaky ideas and the dilution of resources within individual sectors ("That falling feeling", March 17th). However, your comment that "some sort of equilibrium" will return is unrealistic.

Silicon Valley venture capitalists are under pressure from their limited partners to produce profits from existing multi-billion-dollar investment funds and new ones are being created to prepare for the next big thing in technology. None of the major conditions that contributed to the previous collapse have changed. Another technology boom-and-bust cycle is inevitable and we will know it has arrived when the trendier business publications start touting the new-new economy.

BILL BUCY
Palo Alto, California

No loser

SIR—Your obituary (March 10th) of my father, Harold Stassen, correctly states that he ran for president nine times, almost winning only once. You say that "America does not care for losers, even famous ones." But election loss does not mean failure.

An alternative perspective seems more accurate. After fighting in the second world war, Harold was instrumental in creating the United Nations in order to stop a third world war. For the past 55 years, that has succeeded. After experiencing the isolationism of the Republican Party, his public campaigning stopped conservatives for more than a decade. He helped Eisenhower win the presidency twice.

Years before racial justice became popular, he implemented racial integration in the Minnesota National Guard and the University of Pennsylvania Medical School. He predicted, in 1950, that communist nations would fall of their own accord; he publicly opposed Joe McCarthy, becoming the first member of the Eisenhower cabinet to do so; and his 70-year-marriage was part of an 80-year-romance that awed

everyone who knew him. Although he did not always win, he certainly was not a loser.

KATHLEEN STASSEN BERGER
New York

Fuel for thought

SIR—There is no foundation to the assumption that the National Atomic Energy Commission (CNAE) has lost its technical capacity to develop the fuel that the nuclear reactor to be built at Lucas Heights in Australia will require ("Unloved boffins", February 24th). Although Argentina has undergone strict budgetary constraints, the different technical groups that participate in the project for high-density fuel for nuclear reactors have remained active so that the CNAE may qualify as a competitive international supplier of such fuel.

The technical groups have several innovative technological projects under way, such as the unification of the range of fuels used at present in Argentine nuclear centres, the enrichment of uranium envisaged to lower the costs involved in the separation of U235 and the development of a combustible element for the CAREM reactor prototype.

VINCENTE BERASATEGUI
Argentine ambassador
London

Pervasive subsidies

SIR—It is disappointing that your article on oil subsidies so cursorily dismisses the estimates of Greenpeace (of which I was an author) and others as "inflated" (Economics focus, March 10th). The limited evidence presented in the Cato Institute study as to why subsidies to oil are low or non-existent is hardly convincing. The risk of accepting the "more reasonable" valuations of the few subsidies acknowledged by the oil industry is that the enormous fiscal and environmental benefits from subsidy reform will be understated and the compliance costs with the Kyoto Protocol overstated.

The Cato paper advocates the use of cost-benefit analysis of existing subsidies before one can conclude that a programme appearing on its face to benefit oil actually does. Such expensive and time consuming assessments do have a place, but it is not here at the end of the process. Rather, they should be required before Congress can give final authorisation on tax breaks worth hundreds of millions of dollars to private-sector participants. Such an approach would be a rough parallel to the analysis now required of regulatory changes that can potentially burden industry.

Despite efforts to discount and discredit as many oil subsidies as possible, these subsidies are pervasive throughout the world.

DOUGLAS KOPLOW
Cambridge, Massachusetts

Empowering women

SIR—I was dismayed at the sad plight of women in Nepal ("Nepal's overburdened women", March 10th). I hope that Nepal's parliament, egged on by brave women like Sapna Pradhan Mallah, emancipates Nepali women from being treated "like slaves or pack animals" and at least grants them the right to inherit property. A crucial difference for we women in Bhutan is that property is passed down from mother to daughter, empowering women with ownership and a host of advantages that spin off from such a cultural tradition.

KELZANG LHADEN
College Park, Maryland

Rest in peace

SIR—Research on whether exposure to the electromagnetic field (EMF) from power lines causes cancer should be laid to rest ("Current concerns", March 10th). The first paper on the topic, published over 20 years ago, ignited the public's fear and fuelled a near industry dedicated to answering the question. Yet

20 years, dozens of investigations and tens of millions of research dollars later, we have yet to find convincing evidence that such an association exists—and we are unlikely to find one.

Simply put, the tools that we have been using to study the issue, namely population based epidemiology, are too blunt for the job. While modern methods are robust enough to detect associations such as the one between smoking and lung cancer, they are unlikely to be very useful where the exposure is difficult to measure and ubiquitous (as in EMF), the disease is rare (as in childhood leukaemia) and the suspected association is weak (as it is between EMF and leukaemia). In these studies, external factors such as recall bias (can people remember their levels of exposure from years past?) are likely to overwhelm meaningful statistical associations. Furthermore, animal experiments have so far been fruitless.

Perhaps the strongest argument for ceasing the research on EMF and leukaemia is what science has been telling us all along: first, that there probably is no association, and second, as you point out, the attributable fraction of leukaemias to power lines, should an association exist, is unlikely to exceed a few cases per year in most populations.

It is time to stop playing on the public's fears and quit flogging the dead horse. The many epidemiologists who have studied the issue for so long will surely find plenty of work fighting AIDS, malaria and other ugly curses.

RAMZI MRAD
San Francisco

In a spin

SIR—You say that "wind turbines still look big and ugly" ("Maybe this time", March 10th). As a child I always looked forward to passing Palm Springs to make sure that I did not miss the sight of hundreds of majestic windmills spinning in sync. Nor did my wonder die down as a college student. Another long-distance drive took me past a wind farm near the Lawrence Livermore National Laboratory. A designated spot allows drivers to enjoy the view. The marketing agency for Lexus recognised the public's pleasure in this sight some years ago. They featured an ad in which their sleek new model twisted speedily through a wind farm.

I enjoy the sights of nature a great deal, but often man-made structures too evoke a sense of peace and beauty.

ASHISH AGARWAL
Pittsburgh

Giving it away

SIR—You repeat that the stated strategy from Palm Computing: "is eventually to make most of its money from licensing its technology, selling content and software to be used on its devices" ("Gadget wars", March 10th). Something must be getting lost at Palm between strategy and execution. Palm gives away its software to customers in general. Software sales at Palm are less than 1% of total sales. It sells operating-systems licences for a nominal amount to the ex-CEO making a billionaire out of him, but generating less than $10m for Palm.

MIKE BRADLEY
Wapella, Illinois

Up the autobahn

SIR—In your review of a book about Jack Kennedy and the Cuban missile crisis ("A book for Bush", February 24th) you claim that Kennedy "did not force the issue by sending a convoy up the autobahn". This is wrong. That August morning in 1963, the then considerable US 7th Army went on alert and a battle group of the 8th Infantry Division did in fact move up the autobahn to Berlin while 7th Army units waited to see if the soviets would resist them. They did not and the uneasy face-off across the Berlin wall began.

I remember clearly what took place as I was serving there as a subaltern. The memory is particularly vivid because of a story that circulated shortly after the event that the 7th Army commander had found

out from the radio as he ate breakfast that one of his units was moving. It seems that General Bruce Clarke, commander of the US Army in Europe at that time, had reached down a level and ordered the move without bothering to inform the intermediate commander. Despite this, I would imagine that Kennedy knew, or should have known.

MICHAEL MAHLER
Bozeman, Montana

Fancy footwork

SIR—The perfect comment on Sir Anthony Hammond's impeccable handling of the Mandelson affair (Bagehot, March 17th) is to be found in Ninette de Valois's obituary in the same issue: "Everybody knows that if you want to see really beautiful footwork, go to England."

IVAN MOMTCHILOFF
Santa Barbara, California

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No title

Mar 29th 2001 | LILONGWE, MALAWI
From The Economist print edition

Want to make the poor less poor? Give them proper title to what they own

THEY are not as poor as you think. People in poor countries have assets—lots of them. But because they rarely have formal title, they cannot use these assets as collateral to raise cash. Economists tend to think of the informal economy as a marginal phenomenon, of interest only to missionaries, aid workers and the police. But in many, perhaps most, developing countries, the informal economy is bigger than the formal one. In a typical African country, barely one person in ten lives in a formal house, and only one worker in ten holds a formal job.

The seeds are hers; is the ground?

The remaining nine-tenths are usually ignored. But according to Hernando de Soto, a Peruvian economist, the total value of the fixed property held but not legally owned by the poor of the third world and former communist countries is at least $9.3 trillion*. This is a staggering figure. It is 20 times the total of foreign direct investment into developing countries between 1989 and 1999, and 93 times the amount of development assistance from all rich countries to the third world in the past three decades.

While leaders of poor countries beg the rich world for aid and prostrate themselves before potential foreign investors, they fail to realise that there is a much larger potential source of funds at home. “In the midst of their own poorest neighbourhoods and shanty towns”, writes Mr de Soto, “there are trillions of dollars, all ready to be put to use if only the mystery of how assets are transformed into capital can be unravelled.”

Wander into Mtandire, a shanty town near Lilongwe, the capital of Malawi. The roads are unpaved, bumpy and wet. Maize sprouts in every backyard. Cars are so rare that children wave excitedly as you drive by, and chickens fearlessly block your path. A slum in one of the poorest countries in the world’s poorest continent: you would expect the people who live there to be very poor indeed. You certainly would not expect to find a large store of potential wealth in Mtandire. Look harder.

Grace and John Tarera slaughter goats for a living. Demand is brisk: Malawians adore goat stew. The Tareras want to expand their business to meet this demand, but they lack capital. Mrs Tarera thinks they need about 20,000 kwacha ($250). This may not sound much, but in Malawi, where the average annual income is only about $200, it can take years to raise such a sum.

But wait: the house where the Tareras live is worth at least 25,000 kwacha. They bought the land five years ago and threw up a brick bungalow, fussily furnished and painted a satisfying shade of light blue. Surely they could borrow using the house as security? No, because they cannot prove they own it.

The Tareras’ house, like all the others in Mtandire, is built on “customary” land. That is, the plot’s previous owners had no formal title to it. The land was simply part of a field that their family had cultivated for generations. About two-thirds of the land in Malawi is owned this way. People usually till the land their parents tilled. If there is a dispute about boundaries, the village chief adjudicates. If a family offends gravely against the rules of the tribe, the chief can take their land away and give it to someone else. In effect, the chief holds all the land in trust for the tribe, as kings did in feudal Europe.

The system worked well enough when Malawians were all farmers and there was plenty of land to go round. But it is ill-suited to a crowded urban setting. As people flock to Lilongwe in search of jobs, they increasingly settle on the farmland that surrounds the city. Peasants are happy to sell them plots, but informally. Would-be buyers and sellers approach the local chief, who confirms that the seller owns the land he is selling, and gives him permission to sell it. The contract may be oral, or it may be written in the local language and signed by the chief. The chief takes a fat cut—anything from 5% to 40%.

This is how John and Grace Tarera bought the land beneath their house. They have a contract signed by the local chief, but no bank will accept it as collateral, because it is not enforceable in a court of law. Rather, it is an expression of traditional law, which is usually unwritten, unpredictable and dependent on the chief's whim. The chief may be a wise, just and consistent fellow. But the bank does not know this. So the Tareras' house is what might be termed "dead" capital. They own it, but they cannot make its value work for them.

Informal ownership hurts rural people, too. Take Nashon Zimba, a 25-year-old peasant who grows maize, beans and tobacco on 1.8 hectares (4.5 acres) in Chiponde, a small village in Kasungu district, north-west of Lilongwe. Mr Zimba is poor even by Malawian standards. His cash income last year was $40. He lives with his wife and baby daughter in a mud shack so small that, if he were not so short, his feet would stick out of the door when he lay down to sleep.

Mr Zimba frets that he cannot afford enough seeds or fertiliser to make full use of his land. Borrowing is out of the question. Loan sharks—"caterpillars", as they are known in Malawi—charge impossible rates of interest. A few farmers in the village can obtain small loans from the Malawi Rural Finance Corporation, a donor-supported microlender. But only those who are organised into groups to cross-guarantee each other's borrowings are eligible. These groups are exclusive: the most productive farmers do not want less able neighbours to spoil their collective credit history.

For the rest, there is charity. The government hands out free starter-packs of seeds and fertiliser, intended for the poorest farmers. Only 32 such packs arrived in Mr Zimba's village last year, for a population of about 900. They were not sent directly to the intended recipients; the poor do not have addresses. Instead, the chief doled them out as he saw fit. Mr Zimba did not receive one.

Almost 90% of Malawi's 11m people live off the land. Their average plot size is tiny: less than a hectare. Productivity is woeful. The population is expected to double by 2020. Unless a lot of people move to the cities, plots will be sliced even smaller than they are today. Smaller plots mean lower productivity; many families could go hungry. Mr Zimba senses that there is little future in farming. His ambition is to be a hawker. He envisages buying soap and paraffin in the nearest town and selling it in the village. But he does not have the start-up capital.

Some people in Mr Zimba's position move to the city, find jobs, and save to start a small business. But this is hard. A Malawian peasant cannot usually sell his land without agreement from his family and the village chief. If he leaves his property unattended, there is a danger that the chief will give his land to someone else, or that a sibling will grab it.

When he arrives in the city, there will be no cheap shelter. Without mortgage lending, there are never enough houses in shanty towns. A landlord in Mtandire cannot borrow money to build and then recoup it from rental income. He has to pay cash in advance and then try to get it back. So a typical slum rent is much higher, relative to the value of the house, than it would be in a posh area where landlords have title deeds. In Mtandire, ten months' rent will buy you the house.

Capitalism needs rules

The advantages of sound property rights are so taken for granted in the West that it is worth spelling them out. First, secure title makes assets fungible. In a country with good property laws, almost anyone can use a house or a piece of land as collateral to raise a loan. It is also easy to divide assets between multiple owners. Ownership of a factory can be shared out among hundreds of people, any of whom can easily sell all or part of his share without the need to take the factory physically apart. If a French farmer dies, his children can sell the farm, or retain equal shares in it, or the more agriculturally- inclined sibling can buy the others out. The possibilities are legion. African smallholders have much less flexibility: plots tend to be divided into ever-smaller parcels with each generation.

A uniform property system is also a way of sharing knowledge. When information about the ownership and value of houses, companies and other assets is centrally recorded and freely available, it makes it easier for people to see economic opportunities outside their own neighbourhood. In other words, formal property law enables people to do business with strangers. Those who are part of the formal property system have addresses, credit records and identifiable assets. A westerner who does not honour his debts is blacklisted. The bailiffs know where to find him, and what to seize. So he has a powerful incentive to play by the rules. Millions of third-world squatters, by contrast, cannot obtain telephone or electricity lines because no one trusts them to pay their bills.

Western property laws protect not merely ownership, but transactions too. People in poor countries can usually prevent their assets from being stolen by forming self-defence groups or hiring the muscle of local mobsters. But they cannot confidently buy anything they cannot see. Poor people carry their pigs and tobacco bales physically to market. The prohibitive cost of carrying them back means that they have to sell them straight away, whether prices are good or not. American farmers sell paper representations of their crops, which is easier. To smooth their cash-flow, they can sell the rights to purchase crops which have not yet been sown. If a Malawian farmer wants cash in advance, he must grow marijuana.

The house that Nashon built

When you cannot do business with strangers, you have to do everything yourself. This is inefficient. Imagine building your own house. Some westerners do, of course, but not in the way rural Africans do. An American buys industrially produced bricks, cement, glass, nails, screws, drills, pipes and so on. All these parts have been made cheaply and well by a company that specialises in making them, and which has in turn bought its machine tools and accounting services from other specialists.

Compare this with Nashon Zimba's experiences. He digs up mud, shapes it into cuboids and dries it in the sun to make bricks. He mixes his own cement, also from mud. He cuts branches to make beams, and thatches the roof with sisal or grass. His only industrial input is the metal blade on his axe. Working on his own, while at the same time growing food for his family, Mr Zimba has erected a house that is dark, cramped, cold in winter, steamy in summer and has running water only when tropical storms come through the roof. An American, by contrast, supported by a network of millions of specialists he has never met, can live in a relative palace without ever needing to learn one end of a hammer from the other.

Since the demise of the Soviet Union, few people still argue that property is theft. It is a rare despot—Robert Mugabe springs to mind—who openly urges his followers to grab other people's land. In theory, property rights are available to all in most poor countries. But in practice, most poor people do not take advantage of these rights.

It is often assumed that informal homes and businesses stay that way because their owners do not wish to pay taxes. This is doubtful. Taxes are burdensome, but extra-legality is often more so. The informal entrepreneur pays gangsters for protection and bribes officials to ignore him. His operations are often geographically dispersed to hide them from the authorities, which stops him from achieving economies of scale. He cannot declare limited liability, or obtain insurance or cheap credit. In short, informality is uncomfortable.

The reason that extra-legal businesses and landowners in poor countries do not become legal is that their path is usually blocked by officialdom. To illustrate: Mr de Soto's researchers set up a one-man clothing workshop on the outskirts of Lima, and tried to register it. The team worked for six hours a day, filling in forms, travelling by bus into central Lima and queuing before the relevant official desks. It took them 289 days to make their micro-enterprise legal, and cost $1,231—31 times the monthly minimum wage in Peru.

The story is the same elsewhere. In the Philippines, to formalise a squatter's house built on state-owned land can require 168 steps involving 53 public and private agencies and taking 13 to 25 years. In Egypt, to obtain permission to build a house on land zoned for agriculture takes six to 11 years. If you build first and then try to become legal, you risk having your home demolished and spending time in jail. In Malawi, the bureaucracy that administers property law is, in the words of an official report, "riddled with jurisdictional overlaps and internal conflicts", and "often the cause of delays, errors of judgment, lack of co-ordination, rampant corruption and dereliction of duty."

All rich industrialised countries have secure property rights, accessible to more or less all citizens. No poor country has. Better property laws are not the only reason that some countries are richer than others, but they clearly make a difference. Many poor countries, recognising this, are trying to devise ways to make their property systems more inclusive. But the hurdles are high.

Lawyers often oppose attempts to simplify the law. Tribal chiefs resist changes that may reduce their power. And cultures, though they may evolve rapidly, cannot be changed by fiat. People who live in traditional rural communities are often wary of alien ways of doing things. Stanley Ngwira, for example, chairman of an association of farmers from Mr Zimba's district, finds the idea of selling land abhorrent. "There would be nothing for our children," he protests.

Today's rich countries took hundreds of years to forge uniform property codes. Until the 19th century (or more recently, in the case of Japan), they were shackled with multiple and contradictory sets of property laws. The early American colonists were mostly squatters. The country was so vast and sparsely populated that the land-hungry simply fenced and ploughed without worrying about title. Big landowners, such as George Washington, tried to evict and prosecute squatters, but they tended to resist violently, and juries seldom convicted them.

Powerless to stop them, some legislators tried instead to bring squatters inside the law. As early as 1642, the state of Virginia passed a law that allowed squatters to be compensated for improvements they had made to land they occupied. If the rightful owner was unwilling to pay, the squatters were given the right to buy the land from him at a price set by a jury. This helped many squatters to become legal.

In the 19th century, when the pioneers rushed west to stake out claims to farms and gold mines, they made their own local rules to determine who owned what. Several states passed laws allowing those who occupied and improved idle land to claim title to it. Federal law followed behind. There was an heroic effort to tie all local property systems together into a single code. The Homestead Act of 1862 and the mining law of 1866 essentially formalised the arrangements that extra-legal farmers and prospectors had already worked out for themselves hundreds of miles from Washington.

Lessons from the frontier

For poor countries today, the lesson is not in the details of American history, but in the general principles. For property law to be respected, it has to reflect what is happening on the ground, and it has to try to include as many people as possible.

Poor countries' efforts at reforming property law have rarely succeeded. Middle-class reformers have too often assumed that their ideals could be imposed on the poor. In Peru, for example, numerous attempts to give indigenous people title to their land failed because the mechanisms by which they could assert this right were too complex and expensive.

In Malawi, laws allowing freehold and leasehold were introduced by the British in colonial times, but were never widely trusted because they were the means by which settlers hoodwinked the locals into surrendering their ancestral lands. Hastings Kamuzu Banda, the dictator who ruled from independence in 1964 until 1994, also tried to encourage formal ownership. But his habit of grabbing large tracts of land for his cronies undermined the rule of law. Banks were forced to lend for political rather than commercial reasons, which prevented the evolution of property-backed lending.

A new property law is expected to pass this year, making it easier for holders of customary land in Malawi to obtain formal leasehold. If it is to succeed, the government will need to persuade people that it offers concrete advantages, and that it does not conflict too much with their traditions. All this will take time.

In every poor village, anywhere in the world, people know exactly who owns what. Mr de Soto tells a story to illustrate the point. On farms in Bali, there are few fences to mark the boundaries between properties. But the dogs know. Cross from one farmer's land to his neighbour's, and a different dog barks. The challenge for governments in poor countries is to take the information contained in those yelps and fashion from it a clear and enforceable set of laws. The alternative is to stay poor.

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*"The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else". By Hernando de Soto. Basic Books; 276 pages; $27.50

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Working out the world

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From The Economist print edition

George Bush's emerging foreign policy seems colder and sharper than Bill Clinton's, but it isn't either "hawkish" or "isolationist"

ON THE campaign trail last year, George Bush promised a new start in American foreign policy after the "squandered opportunity" of the Clinton years. The past few weeks have given the first indications of what he meant. These first signs have made quite a lot of people jump.

On the eve of Vladimir Putin's trip to the European Union's summit in Stockholm, America threw out 50 Russian spies, without, it seems, telling all its allies in advance. This followed comments by the defence secretary that Russia is an "active proliferator" of nuclear-missile technology. Immediately afterwards, the administration promised to receive the foreign minister of the breakaway republic of Chechnya. This caused conniptions in the Kremlin. Russia's own foreign minister has not yet been to Washington.

Next, the head of the Environmental Protection Agency described the Kyoto accords on climate change as dead, so far as the administration is concerned. This followed the president's reversal of a campaign promise to reduce carbon-dioxide emissions. The administration is now looking at ways to withdraw from the accords (which America has signed but not ratified). Before that, during a visit by South Korea's President Kim Dae Jung, Mr Bush abruptly challenged Mr Kim's "sunshine policy" towards North Korea by claiming that the hermit state had not fulfilled the terms of an agreement with America over nuclear technology.

Last, and perhaps most serious of all, the administration's relations with China got off to a bumpy start when a meeting at the White House between the president and Qian Qichen, the grey eminence of China's foreign policy, descended into an exchange of differences (Taiwan, human rights, missile defence), crowding out what they have in common (trade, counter-terrorism, weapons proliferation). China thereupon provided an echo of the Russian espionage case by officially branding Gao Zhan, an America-based Chinese scholar who was arrested in China last month, a spy acting for "overseas intelligence agencies".

This is widely seen as preliminary sparring for what has the potential to be the biggest bust-up between China and America since 1992, when Mr Bush's father sold 150 F-16 aircraft to Taiwan. At some point in the next four weeks, the administration is to announce this year's arms sales to Taiwan. The indications are that it intends to go much further than the previous administration.

To many outsiders, the sight of a Bush in the White House (during an economic slowdown) scrapping with Russia and China over spies and missiles looks like a reversion to cold-war hawkishness, with America confronting communist (or ex-communist) rivals and being prepared to ditch multilateral accords if it wants to. There is something in this view. But, before accepting it wholesale, it is worth looking a little closer. These events are capable of bearing a different interpretation: that of a series of reactions,

in which a skeleton foreign-policy crew responds to happenstance events in a way that reveals preferences, but stops short of laying out a clear new agenda.

Take the expulsion of the Russian spies. This began with the revelation that an FBI counter-intelligence agent, Robert Hanssen, was spying for Russia. The Bush administration inherited that case from the Clinton administration; its decision to expel the Russians owes something to the fact that the evidence happened to come to fruition now, as well as to Mr Bush's desire to signal a new firmness towards Russia. Similarly, the dismissal of the North Korean accords was partly influenced by the administration's annoyance at an earlier statement by South Korea and Russia which contained language the administration regarded as critical of its wish to have an anti-missile shield.

In both cases, the broader intent of Mr Bush's policy, signalled well in advance, can hardly be described as diplomatically objectionable. At heart, he is insisting on full verification of the North Korean accords, and demanding that Russia reconsider the 30-year-old Anti-Ballistic Missile (ABM) treaty—a point Russia itself has implicitly conceded by making proposals for reforms of its own.

This more modest interpretation of recent events is a warning against reading too much into the past few weeks. At the moment, the "new" foreign policy is largely a matter of rhetoric and tone. Tone matters more in foreign affairs than any other area of policy, but the fact remains that, so far, the administration has not yet had to make any hard decisions, such as whether to deploy force, or which new weapons system to buy or sell. The first decision of that sort comes next month over Taiwan.

At the moment, it is not clear whether the rhetoric is really a negotiating ploy, in which the administration blusters in order to build credibility and extract maximum concessions when the time comes to negotiate, or whether it wants to change international relations in some fundamental way. Bear in mind that ideology seldom triumphs over pragmatism at the crunch (though Ronald Reagan did not quite fit that pattern).

Still, the uncertain direction of policy matters because a split between pragmatists and ideologues may indeed be opening up in the administration. The clashes have echoes of an earlier and long-lasting division between Cap Weinberger and George Schultz, Mr Reagan's secretaries of defence and state. This is a reminder that, when such differences appear, they tend to run deep.

On the one side stands Colin Powell, the secretary of state. Before Mr Bush's criticism of "engagement" with North Korea, Mr Powell had said he would continue with that policy. Mr Powell has also supported the European Union's plans to set up a European rapid-reaction force. And he has been seeking to change American policy towards Iraq by trying to unite the fractured Gulf war coalition behind a new sanctions regime, which would reduce economic sanctions in exchange for toughening the control of exports with military uses.

On the other side stand Donald Rumsfeld, the secretary of defence, and his deputy, Paul Wolfowitz. Mr Rumsfeld is more sceptical than Mr Powell of the Europeans' military ideas (which he fears might damage NATO), and Mr Wolfowitz is openly dismissive of the efficacy of any Iraqi sanctions regime. He wants to undermine Saddam Hussein by aiding the Iraqi opposition, a policy that contradicts Mr Powell's attempts to patch together the Gulf war coalition, most of whose members oppose the idea of trying to overthrow Mr Hussein.

The split between the two sides is real, and is repeated in the second tier of appointments at State and Defence. But at the moment it seems to exist more at the level of tactics than of strategy. Messrs Powell and Rumsfeld have lunch together every week with the third member of the Bush foreign policy team, Condoleezza Rice, the national security adviser. The three have a daily telephone chat at 7.15am. It is too soon to conclude that their tactical differences reflect a fundamental disagreement between those who want to manage the world and those who want to transform it.

One explanation for the divisions, therefore, is an institutional one. Mr Powell is the only one of the three whose job routinely requires him to take notice of what the rest of the world thinks about America's emerging policies. His differences with others may partly reflect the unease felt by outsiders, especially some Europeans, over what they see as a shift in American priorities that brings problems for their own foreign-policy ideas.

So what is that change in priorities, and are Europeans right to worry about it? Part of the answer lies in those headline-grabbing confrontations with Russia, China and the Koreas. But the bigger part lies below the surface.

The arguments with China and Russia look comparable but hide a big dissimilarity. To put it crudely, the administration is prepared to disagree with Russia because it thinks it hardly matters. It wants to confront China because it thinks it matters a lot. This difference could lead to a profound shift in the focus of American policy away from Russia, and by extension Europe, towards China, and by extension Asia. Support for this possibility comes from the defence review commissioned by Mr Rumsfeld from Andrew Marshall at the Pentagon. Leaked accounts of the review, presented to the president last week, suggest that he wants American military policy to focus more on the Pacific, implying a substantial change in troop dispositions and the sort of weapons America deploys.

Next, there is evidence that the administration is adopting a policy which might be dubbed “parallel unilateralism”—a willingness to go along with international accords, but only so far as they suit America, which is prepared to conduct policy outside their constraints. The administration’s desire to pull out of the Kyoto accords and apply environmental restrictions of its own is one example. Its willingness to ignore the ABM treaty if it cannot be renegotiated is another. In addition, some State Department officials talk of the biological-weapons protocol as effectively dead. And the treasury secretary, Paul O’Neill, has been dismissive of American participation in multilateral aid efforts.

Last but not least, there are clear signs that the administration is fulfilling its campaign promise to be more selective about where to engage its troops and its attention. The conflict in Macedonia is a perfect example. No senior American official has been to Skopje. The EU’s foreign-affairs chief, Javier Solana, has been there four times, and the German foreign minister once. This is the first time since the wars of the Yugoslav succession began that a big Balkan initiative has had no serious American involvement. A similar refusal to use American power to shape a regional conflict can be seen in Israel, where Mr Bush has pulled back from Mr Clinton’s fruitless peacemaking.

At the moment, Mr Bush is not concentrating on foreign affairs. His attention is on the tax cut. The big decisions come later. But if early signs are anything to go by, a new policy is emerging which, if not exactly hawkish in the pugnacious sense, is more unilateralist than outsiders are accustomed to, stepping away from multilateral and regional entanglements that are deemed marginal to America’s own security needs.

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California's electricity

Shocked

Mar 29th 2001 | LOS ANGELES
From The Economist print edition

IT WAS inevitable, and now the day has come: Californians are going to pay more for power. On March 27th the state's Public Utility Commission (PUC) approved an immediate increase in the rates that the utilities, which it oversees, are allowed to charge their customers for electricity.

Under the hopeless old system, wholesale suppliers could charge utilities whatever the market would bear, but the utilities were banned from putting up retail rates for their customers. Result: the two largest utilities, Pacific Gas & Electric, which serves mainly northern California, and Southern California Edison, have run up debts of over $14 billion since the beginning of this year and are close to bankruptcy.

The PUC's decision will allow PG&E and SCE to raise prices by up to 46% and 42% respectively, including a 10% "temporary" increase imposed in February that will now become permanent. These increases will be tilted towards larger customers. Around 45% of customers, including households with the smallest bills, will see no rate rise, but many businesses will pay at the full new rate.

The price increases will raise around $5 billion a year for the utilities. This will go towards repaying an issue of $12 billion of bonds, which the PUC approved when it put the price up. The sale of these bonds will reduce the drain on the state's coffers, currently about $50m a day, of buying power on behalf of the penniless utilities.

Complicated questions remain. California is still negotiating long-term contracts to buy power. The utilities' bills remain unpaid, including some to independent power generators within California. One of the ironies of the power crisis is that, instead of profiting from increased prices, small generators that use renewable sources of energy such as the wind and the sun have been driven almost to collapse by the failure of the utilities to pay them.

The underlying problems of inflated wholesale prices and shortages of supply also remain unsolved. In the week before the price-rise announcement, there were two days of power cuts; these can hurt the state's economy more than increased rates. Three new small power stations should be working by the summer, but not until 2003 will enough new capacity have been added to the system to eliminate the risk.

The governor of California, Gray Davis, with an election coming up next year, had promised repeatedly that he would not allow prices to rise. He called the PUC's announcement premature, and claimed to have had no knowledge of it. This seems disingenuous. He appointed three of the commission's five members, and has always boasted in the past that he expected his appointees (and even the state legislature) to reflect his wishes.

For the moment, his blame-shifting has worked, and the PUC is taking the flak for higher prices. It is also, however, winning praise from longer-sighted politicians and businessmen. This suggests that Mr Davis ought to have been bolder—a long time ago.

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Migration

The uses of strangers

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From The Economist print edition

People are coming to America at a faster rate than ever. Our first piece asks whether they are a boon or a burden; a second looks at guest-workers

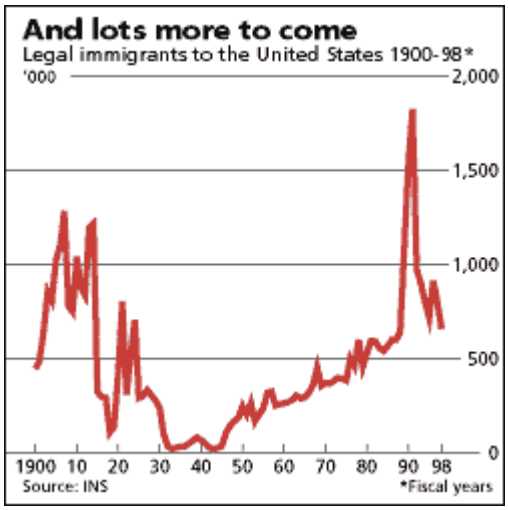
THE church of the Sacred Heart, in a scruffy corner of Washington, DC, offers services in English, Vietnamese and Haitian, depending on which day you arrive. On a recent spring morning it was thronged with another group: illegal migrants from El Salvador. At a dozen tables, volunteers helped them to complete forms for temporary-protection status in the United States, and for work permits. Since two earthquakes devastated their country earlier this year, Salvadorans have been given special rights to stay.

The reason? Hard-nosed economics. Both the American and the Salvadoran governments think it is better to encourage recovery by letting all the 1m-plus Salvadorans in America work and send money home to their families than to spend tax dollars on aid. One man waiting in line, who smuggled himself into America in 1997, says he arrived with only $25 in his pocket. Now, working as a butcher, he can send $200 a month to his wife and children in rural El Salvador. If he could work legally, and so get higher wages, he would send more. “If with work, it is no problem,” he explains with a grin.

Tens of thousands of Salvadorans in the DC area would agree. So would an estimated 11m illegal immigrants across the country. For Central America as a whole, such remittances (mostly from the United States) have grown by 26% a year and were thought to be worth $8 billion in 2000 by the Inter-American Dialogue, a think-tank based in Washington. Around the world, roughly $100 billion is sent home in this way each year, vastly more than is spent on aid. Countries that export migrants get a good deal.

But what about the chief importer, the United States? The recent census showed the country’s population growing rapidly because of migration, mainly of Latinos. Experts agree that migration to America, now at roughly 1m people a year, has been faster in the past decade than ever before. The migrant share of the population nearly matches the era of the “great migration” a century ago.

The impact seems broadly good. Migrants do not increase America’s (low) unemployment figures, partly because they cannot claim welfare. But they contribute to the workforce. According to the Economic Policy Institute, the immigrant share of America’s labour force has grown from 7% in 1979 to 10% in 1988 and is expected to be nearly 15% by 2005. Those figures were calculated before the new census figures were announced, so the real ones could be higher.



It also seems that migrants meet real needs, and do not push Americans aside. Susan Martin of Georgetown University says they are either much less skilled, or much more, than the average American, and can solve labour shortages in specific industries. Although sugar-cane harvesting and grape-growing could now be done largely by machine, many farmers find it cheaper to hire foreign hands for the season.

In higher-skilled industries, such as software companies, demand for migrant workers—especially from Asia—has also been remarkably high. Microsoft has said that tighter restrictions on migrant labour might make it shift some of its operations to Asia. The annual allotment of 200,000 or so temporary visas for top-end jobs is usually filled only six months into the year, says Ms Martin. In an economic downturn, low-skilled migrants may be the first to lose their jobs, but the high-skilled ones should survive, she says.

All this is evidence that migrants can be useful to the economy. But it is not conclusive. Although skilled labour is undoubtedly a boon, and cheap and willing labour helps productivity, alternatives could be better yet. Without migrants some businesses, especially farming, could have become more productive through mechanisation. Others could have done better by moving their operations abroad, where a wider pool of labour is available.

Weighing up the advantages of immigrant labour against the cost of supplying services to migrants is not easy. Many migrants work in the black economy; their communities provide a surrogate welfare system, and some earnings are sent abroad. One recent study by the National Academy of Sciences estimated that, in all, migrants make a net contribution to the economy of $10 billion. This is an almost negligible amount, but still on the plus side.

The trouble is that costs and benefits are not shared out equally. Most taxes paid by new immigrants go to the federal coffers, but most of the services they claim (such as schooling) come from states' purses. In California, says Ms Martin, the arrival of badly educated migrants costs each native Californian household $1,200 a year. New migrants find it particularly hard to improve their lot, especially if there are more foreigners right on their heels. But, over time, they tend to get wealthier and pay more taxes, thus becoming net contributors. One estimate suggests the average migrant pays $80,000 to the American government in his lifetime, and as much as $250,000 if he went to college.

Such guesses are rough and ready, but they suggest that migrants, especially educated ones, are more likely to help the economy than to drag it down. "Overall, the weight of the evidence is that it has been a major boon to the economy to have such a supply of labour at many levels," says Alejandro Portes of Princeton University. And if remittances keep flowing to countries south of the border, economic growth will be bolstered. In Mexico, where investment from the United States is flooding in, more new jobs may eventually be created than new workers, and migrants may stop flowing north. Then what will the United States do?

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The caveman cometh

Mar 29th 2001
From The Economist print edition

ANYBODY who wants to understand George Bush's Washington ought to wangle an invitation to the Wednesday meeting of Americans for Tax Reform. The meeting not only proves that Hillary Clinton was right about the existence of a vast right-wing conspiracy. It suggests that the conspiracy has finally captured the White House.

Back in January, everyone assumed that Bush Two would be a remake of Bush One. Hadn't half the cabinet served under Poppy? And isn't compassionate conservatism just a remake of kinder, gentler conservatism? No. As it turns out, the new Bush administration could end up more right-wing than Ronald Reagan's.

Mr Bush has adopted decidedly hard-line positions on a growing number of issues, including pollution, workplace regulation and, most important of all, taxation. He has also loaded his administration with true believers from places like the Heritage Foundation, Pat Robertson's Regent University and the *Weekly Standard.*

Mr Reagan had no more than a handful of fellow-travellers in senior positions (most of the Reaganites were aspiring youths in relatively junior jobs). Mr Bush has right-wingers at every level of his administration, with particular concentrations in the vice-president's office, the Office of Management and Budget, the Justice Department and the White House counsel's office. The result is that groups like the Wednesday meeting have moved to the centre of American politics.

The impresario of the meeting is a bearded market-Leninist who has been a stalwart of the movement for more than 20 years. Grover Norquist is a man in constant motion. He fiddles with his pens. He punches holes in bits of paper. He bounces around his office on a large rubber ball. But ideologically he is solid as a rock. Ever since he read Whittaker Chambers in his teens he has devoted his life to a single cause: getting the government off the backs of the people.

Mr Norquist was a lonely figure in the radicalised Harvard of the 1970s. (He once silenced an editorial meeting of the *Harvard Crimson*, in which the assembled prep-school revolutionaries were waffling on about the virtues of the armed struggle, by asking whether anyone present owned a gun. "Well, I do," he said, "and my friends do.") He first came to Washington in 1978 to help take the Californian tax revolt nationwide, and he has been a political activist ever since, apart from a couple of years back in Harvard to get an MBA.

During the Reagan years he made frequent forays into Africa to fight the spread of communism. When not in the field, he sometimes came to work dressed in battle fatigues and carrying a briefcase with a bumper-sticker proclaiming, "I'd rather be killing commies." But his most lasting legacy is keeping the war on taxes at the heart of the Republican agenda. He persuaded hundreds of elected officials to sign his pledge never to raise taxes. Mr Norquist believes that the Republican Party is essentially a "leave us alone" coalition, an alliance of people who mostly want to get government out of their lives. He treats Republicans who do not agree with that premise as little more than heretics. This is not so much compassionate conservatism as caveman conservatism.

If Mr Bush is helping to advance the conservatives' agenda, they are helping to sell Mr Bush's policies in the country at large. Americans for Tax Reform is one of the most powerful grass-roots organisations in the Republican coalition, a combination of nerve-centre and morale-booster. Every week it attracts an extraordinary range of conservative ideologues. And every week it leaves them pumped up and ready to fight the forces of darkness.

It is now throwing its resources behind Mr Bush's tax cut. The organisation is a master of such long-established communication techniques as direct mailing, phone-banking and talk radio. Mr Norquist is introducing two new devices. He is encouraging Republican legislatures to pass motions urging their Washington representatives to vote in favour of lower taxes, a particularly effective strategy in states with Democratic congressmen. He is also encouraging the heads of big companies to be more active in demanding tax cuts and free trade.

Is this lovey-dovey relationship too good to be true? It is possible that the right-wing coalition will eventually fall apart. Free-marketeers and social conservatives may find it harder to put their philosophical differences aside now they are in power than when they were an unlikely combination in the fight against Clintonism. And George Bush may start to worry about looking like a prisoner of extremists.

Mr Norquist argues that tidy-minded outsiders exaggerate the tensions between various right-wing sects. Right-wingers have learned to bury their philosophical differences for the sake of the collective good: free-marketeers support social conservatives over abortion in return for their support over tax cuts. They have also learned to like each other. They get together for meals and drinks. Every year they assemble for a Dark Ages Weekend, the conservative response to the liberal establishment's annual new-year gabfest, the Renaissance Weekend. (Group hugs are banned, and hard liquor encouraged.)

Mr Bush has also proved remarkably adept at dodging the charge of extremism. This Texan has an instinctive grasp of the politics of triangulation—providing his core constituents with the red meat they crave on matters like taxation while simultaneously mollifying wetter folk (and marginalising liberal activists) by pursuing a moderate agenda on key social issues. Mr Bush's education package might easily have been put together by a Democrat, and his top people are more ethnically diverse than Bill Clinton's.

This is not to say that associating with people who decorate their offices with pictures of themselves wielding semi-automatic weapons is free of risks. Mr Norquist shocked many fellow Republicans a few years ago when he organised a meeting to torpedo a possible presidential run by Mr Powell. He raised many an eyebrow when it was revealed that he was a lobbyist on behalf of the Seychelles, a place with a less-than-perfect record of democracy. But young George learned one important lesson from his father's presidency. There is only one thing more dangerous than associating with the vast right-wing conspiracy. That is to ignore it.

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Unemployment

Flawed figures

Mar 29th 2001
From The Economist print edition

WERE all those groans about an American recession a false alarm? After falling sharply for several months, the Conference Board's consumer-confidence index unexpectedly jumped in March. Consumer spending accounts for two-thirds of GDP; so, if households remain relatively confident, a recession is unlikely. But monthly changes in consumer confidence have often been unreliable leading indicators of spending. Moreover, the main reason given for the rebound in confidence is that unemployment still remains low. That may not last.

It is true that headline unemployment remains at 4.2% of the labour force, only a touch higher than its low point of 3.9% last October. Official figures also show that employment has been rising at a brisker pace this year than in 2000. However, John Youngdahl, an economist at Goldman Sachs, an investment bank, suspects that America's jobs market has already deteriorated by more than the headline figures suggest.

Mr Youngdahl believes that the widely followed monthly unemployment numbers may currently be misleading. One reason is that labour-force growth has been unusually weak this year: the number of people working or actively seeking work has increased at its slowest pace for more than five years. This has helped to suppress the unemployment rate.

A second factor is that there has been a steep decline in average hours worked. So far, employers have resisted job cuts and instead trimmed costs by shortening the working week. But if their sales remain weak, lay-offs will surely jump. And, third, the increase in employment may have been inflated by some questionable assumptions. The Department of Labour assumes that hiring by small firms (which are excluded from its survey) has barely changed over the past year. That seems odd, given the sharp slowdown in business activity.

An alternative measure of joblessness—claims for unemployment insurance—has soared. Weekly initial jobless claims have risen from a low of 262,000 in April 2000 to almost 380,000 in recent weeks. Previous increases of this size have almost always been followed by recession. This is only the ninth time since 1967 that jobless claims have risen by 100,000 or more in a year. During the eight previous episodes, the headline unemployment rate rose over the same period by an average of one percentage point. Today's jobless rate therefore looks a bit fishy.

Further evidence of a weakening labour market is a survey of employers' hiring plans by Manpower, a temporary-employment agency. Companies' net hiring intentions for the second quarter of this year have plunged to a four-year low. This is the second-biggest quarterly fall in the index's 25-year history.

One conclusion from all this is that unemployment could spurt over the next few months. If so, expect consumer confidence—and spending—to take another dive.

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What's your poison?

Mar 29th 2001 | NEW YORK
From The Economist print edition

AMERICANS are walking chemistry kits of odd compounds picked up from the environment, says a report issued this month by Centres for Disease Control and Prevention (CDC). In the first large-scale study of its kind, CDC tested people for exposure to chemicals directly, by analysing their urine and blood samples, instead of merely inferring the presence of chemicals from tests of soil, water or air.

Some of the news was good. Two substances for which previous data were available—lead and cotinine—showed decreases. Lead, long known to be poisonous in high doses, has dropped by 25% among children under the age of five in the past five years. Levels of cotinine, a breakdown product of nicotine that tracks exposure to cigarette smoke in non-smokers, has dropped by 75% in the past decade.

The rest of the news was neutral. Most of the 27 substances charted by this report had never been measured before, so this year's chemical profile will be the starting-point against which CDC will track future trends. But simply knowing that a chemical is present in the body is not enough: scientists must also discover if and when the chemical reaches dangerous quantities. Take phthalates, a family of compounds, widely used in plastics, soaps, cosmetics and perfumes, which cause birth defects in rats at high doses. At least two of the phthalates, DEP and DBP, were present in humans in surprisingly large amounts. But working out whether this is good or bad in those concentrations will take years of research.

So far, the report says more about the burgeoning capabilities of analytical chemists than it does about the health of Americans. Its real value will emerge in the next few years, as CDC confirms its findings. It will also extend the scope of its sampling so that it can protect people at particularly high risk, such as pregnant women or small children.

Whether the politicians will do anything is another question. Scientists already know, for example, that arsenic-laced water causes cancers of the skin, liver and lungs. According to a 1996 report from the National Academy of Sciences, the drinking-water allowance of 50 parts per billion in the United States was too high. In the rule-making flurry of his last days in office, President Bill Clinton cut the amount of arsenic allowed to ten parts per billion, which would have brought America into line with the standards of the European Union and the World Health Organisation. Last week, however, the Bush administration overturned that decision, saying "further study" was needed.

So, even when CDC works out which compounds are dangerous and which are not, its concerns may fall on deaf ears. Toast its efforts—but with Evian.

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Virginia

How not to cut taxes

Mar 29th 2001 | RICHMOND
From The Economist print edition

JAMES GILMORE of Virginia, the man President Bush picked to be the Republicans' national chairman, talks a lot about broadening the party's base. To judge by what is happening in Virginia these days, he doesn't seem too skilled at it himself.

Mr Gilmore, a former prosecutor with an instinct for the jugular, has only one term in which to make his mark. Four years ago, he was elected in a landslide on a promise to do away with the much-loathed annual tax on personal motor vehicles (a promise later imitated across the country). Virginia is now covered with sprawling suburbs; everyone, Mr Gilmore argued, needs a car, and working families could not afford to pay a tax that ran, in some counties and cities, to $1,000 or more a year. Not only would the tax be abolished, but taxpayers would get refunds.

In 1998, the Republican-controlled legislature happily voted to phase out the tax. Some of them wondered how Virginia would afford both the refunds, and the services and programmes that were partly paid for out of the car tax; but, at that stage, politicians expected economic growth far into the future. The state would probably have ample funds to cover a phase-out that would cost, said Mr Gilmore, $621m over five years.

Unfortunately, the price of the programme quickly doubled to $1.2 billion, as Virginians bought pricier vehicles to qualify for the maximum refund. And the cost peaked in the last half of 2000, just as the economy skidded to a standstill. By that point, Mr Gilmore found there was a $421m hole in the budget. He cannot run a deficit: state law does not allow it.

Mr Gilmore had promised, in 1997, that he would slow down the pace of the car-tax refunds if the economy slowed. He seemed to forget that; instead, he ploughed on with the refunds, and asked at the same time for spending cuts. The Senate and the House failed to agree on the amount of the refunds; an impasse ensued. By March 27th the budget deadline loomed, with no budget, and thousands of state workers and teachers were without the pay rises the legislature had already promised them.

At the last minute, Mr Gilmore managed a magic trick. He declared (as the governor can) that the Virginia Retirement System was overfunded and could reduce its rates. This would save state and local governments $125m in contributions, and the money would be spent on the promised pay rises. With this book-keeping fiddle, Virginians can get their refunds and their pay rises too.

Ingenious as that may be, Mr Gilmore is still widely thought to have made a mess of things: an awkward start to a career in national politics.

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Migration (2)

Be my guest

Mar 29th 2001 | SAN FRANCISCO
From The Economist print edition

REGARDLESS of your views on immigration, 3m Mexicans, working in the United States without proper visas or permits, represent a considerable challenge to the law. Thanks to the arrival in power of George Bush and Vicente Fox, the law for these “guest-workers” may be about to change.

The lush orchards and market gardens of California have long depended on Mexican labour. At times in the past these workers have come in with the official blessing of federal rules regulating migrant labour, notably the *bracero* programme for temporary farm workers from 1943 to 1964. Since then, illegal aliens have worked fairly openly.

Now a push is under way to bring such labour once again under federal regulation. In January, with Mr Bush’s backing, Senator Phil Gramm of Texas led an American delegation to meet Mr Fox. They discussed a new category of visa that would allow Mexicans to work for up to a year in agricultural or service-industry jobs in America. A committee, including both countries’ secretaries of state, is now working on the idea.

There is also talk of allowing Mexicans already working in America to apply for the permits under an amnesty. This is something that Mr Bush and Mr Gramm are nervous about. But it may be necessary in order to appease American trade unions, which have successfully beaten back proposed guest-worker programmes in Congress on the ground that they would bring in new competition without doing anything about existing cheap labour.

From Mr Fox’s point of view, such a scheme also offers Mexico a chance to hang on to more of its human capital. Mexicans working in America already send at least $6 billion a year back to their families. But the illegal ones tend to stay in America—not least because, if they return, they are much more likely to get caught. A formal guest-worker programme would mean that more came home with their skills and money.

Mr Fox has made it clear that they will be welcome when they do. On a recent trip to California, where 40% of illegal immigrants live, he told a cheering audience of farm workers in the Central Valley that Mexicans working in America were “heroes”. Hoping the compliment would be returned, he also promised to give them the right to vote by absentee ballot in the Mexican elections due in 2003. At the same time, Mr Fox implied that they should also be seen as honorary Californians. He urged the University of California to admit undocumented immigrant students who have attended high school in the state for several years at the same fees it charges Californians, rather than at the much higher fees outsiders pay.

The amnesty proposal sits well with two other Latino campaigns: for better treatment of illegals, who are often exploited, and for compensation for the original *braceros* (literally, people who work with their arms, *brazos* in Spanish). The *bracero* programme was originally set up to provide workers to fill the places in the fields and on the railway lines previously occupied by Americans who had gone to war, but ran on to bring in about 5m Mexicans. It was wound up after reports of abuse of *braceros* by farmers.

That abuse, some now claim, did not end when the workers returned to Mexico. Both the Mexican government, and a Los Angeles law firm that has launched a class-action suit against the American government on the *braceros*’ behalf, say the guest-workers are still owed money. A tenth of the *braceros*’ wages was deducted by the American government, supposedly to go into savings accounts for them in Mexico. These nest-eggs were supposed to be an incentive to return to Mexico at the end of the programme.

Most of the *braceros* never collected their savings. Some were never told about the programme. In other cases, the money disappeared. Estimates of the total current value of the deductions vary widely, but it will run into hundreds of millions of dollars.

Mr Bush's people are keeping mum on the subject. But the gains from sorting out the *bracero* mess, setting up a guest-worker programme and cementing his relationship with Mr Fox could be huge: not least among Latino voters, who have never quite taken to him nationally as they have in Texas.

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Another blow to Mercosur

Mar 29th 2001 | SAO PAULO
From The Economist print edition

A decade after it was created, South America's largest trade block is losing direction

Get article background

ON MARCH 26th, a small and rather sad ceremony took place outside Mercosur's headquarters, housed in a former hotel in Uruguay's capital, Montevideo. A few officials gathered in autumn drizzle to raise the trade block's flag to commemorate the tenth anniversary of its founding treaty. None of the leaders of the member states turned up. Even Uruguay's president, Jorge Batlle, felt unable to travel the five kilometres from his office to take part.

The absence of wild partying was understandable. Though trade between Mercosur's members—Argentina, Brazil, Paraguay and Uruguay—has quadrupled since its creation, it has fallen since 1998 and amounts to only around a fifth of their total trade (see chart). More worryingly, not only are the group's members failing to agree on a common agenda, but they are striking out in different directions.

Most trade within the block is now tariff-free, though skeins of red tape and a heap of non-tariff barriers still remain. But Mercosur has always aspired to be more than a mere free-trade area: it claims to be a customs union, with a common external tariff. The claim is still unpersuasive.

The latest blow came this month from crisis-hit Argentina. It wants to suspend Mercosur's tariff so it can abolish import duties on capital equipment while raising those on consumer goods to 35%—both currently average 14%—in the hope that this will boost growth (see article).

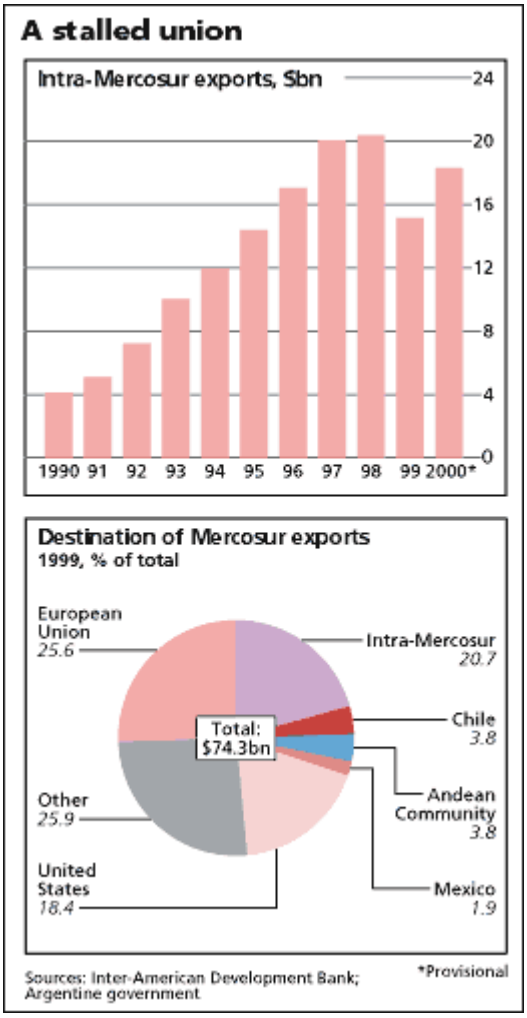
Brazil has reluctantly agreed to suspend the customs union, but only "temporarily"— long enough, in other words, to let Argentina try to pull itself back from a debt default. But Domingo Cavallo, Argentina's new economy minister, has talked (though not publicly) of Mercosur scrapping its customs union, and becoming simply a free-trade area. At least, says an Argentine official, his government wants in future to apply the common tariff only to a restricted range of goods.

Uruguay has hinted that it might support, or even follow, such measures. Like Argentina, it is suffering a long recession. It shares Argentina's view that its troubles have been worsened by Brazil's insistence on relatively high common tariffs on capital goods, to protect its own equipment makers.

Mercosur has not managed to keep a common front in trade talks with outsiders, as a customs union is supposed to do. Argentina and Brazil have held separate talks both with the Andean countries and with Mexico. A bigger challenge involves the 34-country talks for a proposed Free-Trade Area of the Americas (FTAA). These are now reaching an important stage: a meeting of trade ministers in Buenos Aires next month is due to reach agreement on a draft text, in preparation for a gathering of presidents at the end of April in Quebec.

So far Mercosur has stuck together in these talks, as it has in others with the European Union. But Chile has broken ranks. It is an associate member of Mercosur. It has a free-trade deal with the block, but is not part of the supposed customs union. Having announced last year that it would seek full membership, in November it suddenly began bilateral free-trade talks with the United States. That irritated Brazil, which hoped to assemble a united South American negotiating block for the FTAA talks. Uruguay's foreign minister recently hinted that his country might follow Chile in seeking its own deal with the United States.

The disarray of the customs union has gone hand-in-hand with a lack of progress in deepening Mercosur by achieving common policies towards trade among members. In April 2000, the Mercosur presidents said they were "relaunching" the project. They have made modest progress. They agreed to harmonise their economic statistics and set common targets for such things as inflation and public debt. They signed a deal, after years of arguing, that will bring cars into the Mercosur agreement by 2006—though sugar, another contentious item, remains outside it.



But the group has failed to agree on a common policy on "anti-dumping" actions. And a long list of other aims remain unfulfilled, as they have for several years. They include getting rid of non-tariff barriers (eg, by harmonising food-safety rules) and allowing free trade in services and government purchases, as well as eliminating the many exceptions to the common tariff.

One problem is that the block's two largest members have such different currency regimes: Brazil's floating (or sinking) *real* has lost over 40% of its value since its forced devaluation in 1999, whereas Argentina's peso is pegged to the dollar. Increasingly, Argentines are blaming their economic troubles on their link to a partner that can gain "unfair" advantage by letting its currency fall.

In fact, Argentina quickly regained its trade surplus with Brazil after the devaluation, though only with the help of "voluntary" trade restrictions that Brazil's government persuaded some of its companies, from chicken processors to paper makers, to negotiate with their Argentine counterparts. Mercosur talks of, one day, solving such problems with a single currency. But that is a long way off.

It should, however, be easier to strengthen Mercosur as an institution. Brazilian officials insist that the grouping is integral to their country's future. In Argentina, Mercosur once had the enthusiastic backing of business, which saw it as a route to a larger market. But in Brazil Mercosur has always been primarily a diplomatic project, a means to gaining more clout in the world.

Brazil has always resisted creating a Mercosur disputes-settlement body, seeing this as a loss of sovereignty. Yet such a body would reassure its partners that Mercosur had a future. The customs union might survive, and develop further, if Brazil were to accept its partners' desire for lower external tariffs all round, especially on capital goods. Chile might then join, too.

"Rather than making long lists of unfinished business, what Mercosur needs most is the re-creation of a sense of political understanding and shared interests," argues Roberto Bouzas, an Argentine economist, in a recent study. Without that, Mercosur may drift into irrelevance, with the trade links between its members no stronger than those that each individually has with third countries. That would be a shame. Increased trade and political co-operation between Mercosur's members have bolstered stability, democracy and economic reform in the region over the past ten years. All would benefit if the integration

continued.

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Off the fairway in Canada

Mar 29th 2001 | OTTAWA
From The Economist print edition

WHEN Jean Chrétien, Canada's Liberal prime minister, was victorious for the third consecutive time in a snap election last November, he seemed to have placed himself in the happy position of being able to arrange, in due course, a triumphal departure from office, perhaps in a couple of years' time. Might his exit now come sooner, and less gloriously?

Reuters

Chrétien hangs tough

Since the campaign, Mr Chrétien has been dogged by a mini-scandal over the sale of a golf course near his home-town (and in his parliamentary constituency) of Shawinigan, in Quebec. After weeks of newspaper headlines and parliamentary questions on the affair, on March 23rd all four opposition parties joined up to demand a public inquiry to determine whether the prime minister had fallen prey to conflicts of interest. Joe Clark, the leader of the small Progressive Conservatives and himself a former prime minister, called on Mr Chrétien to step down until the issue had been settled.

The tale is a murky one. Briefly, the facts are that in 1988, during an interlude from politics in which he had been working as a lawyer, Mr Chrétien with two (later three) partners bought the Grand-Mère golf course and an adjoining hotel. When he became Liberal leader, he sold his share in the money-losing hotel; and, on winning the 1993 election, he arranged to sell his share in the golf course. The buyer was Jonas Prince, then the boss of Delta, a hotel chain. But Mr Prince paid the prime minister only after he had himself sold the share back to one of the original partners in 1999.

Meanwhile, Mr Chrétien had repeatedly lobbied the boss of a government-linked bank, urging him to reverse its decision to reject a loan for the hotel's expansion. The bank eventually approved a C$615,000 ($443,000) loan in 1997, but only after its boss had left—forced out because of his opposition to the loan, or so he is claiming in a lawsuit. Separately, the government gave a C$164,000 job-creation grant to the hotel during the 1997 election campaign.

Mr Chrétien has said that he had no personal interest in either the hotel or the golf course after November 1993. His lobbying on behalf of the hotel, he has argued, was simply what any member of Parliament would do for a constituent.

Critics argue that a flourishing hotel might increase the value of the golf course. They have cast doubt on whether the prime minister in fact sold his quarter-share in the course to Mr Prince. Last week, the sister of the course's manager let slip that in the late 1990s Mr Chrétien's name was still on the shareholders' register.

Canada's ethics counsellor, who reports to the prime minister not parliament, has backed Mr Chrétien. And, to clear the air, Mr Chrétien said this week that he would make public all relevant legal documents concerning the case. But though he has released, among other things, a handwritten bill of sale of the shares—he has not disclosed, as his opponents want, his tax returns for the relevant period.

The documents may calm the anxieties of Liberal backbenchers, but they have not dispelled all doubts. These could still be around at the next Liberal convention, probably in the spring of 2002, when the party's rules mandate a vote on the leadership. Mr Chrétien may not be too worried. He has often been written off before only to see off his main opponents. He is unlikely to change his plan to retire at his leisure.

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Mexico

Slow start

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From The Economist print edition

Get article background

EPA

Age-old demands, new fashions and masked intentions

FOR over seven years, the self-styled Subcomandante Marcos has been the public voice of the Zapatist rebels in the south-eastern state of Chiapas, and the charismatic enemy-in-chief of the government. But when 23 masked rebel commanders addressed Mexico's Congress on March 28th, the subcomandante, a white of middle-class origins, was not among them: they were simply Indians, asking for rights and respect.

That was a predictable, but effective, touch. Symbolically, it was a great victory for a rebel group to take centre-stage in the Congress after seven years of armed—even if mostly non-violent—uprising, and a two-week propagandising trip across Mexico earlier this month. In a small way, it was a victory too for President Vicente Fox, who has shown that he will go to great lengths to achieve peace with the Zapatists. But beyond the symbolism, the victories are hollow for them both.

Partly to blame was a protracted row over the protocol of the Zapatists' presence in Congress. They wanted to address the legislature in its entirety. When that was rejected as illegal, they threatened to go back to Chiapas. At the last minute, a nitpicking compromise was reached. They would speak in the grand main chamber of the lower house of Congress, but not exactly to the 628-member Congress itself. Only the 60-odd members of the constitutional and indigenous-affairs committees would have to listen. In the event, perhaps twice that number turned up.

What now for the Zapatists? They were prepared to show "signs of peace", they said. But the main purpose of their trip to the capital was to persuade the legislators to pass an Indian-rights bill, which is one of their conditions for starting peace talks. Even so, their eloquent, emotional speeches will not have done much to convince legislators sceptical about the special rights the bill would grant. Even those sympathetic to them doubt their intentions. "The platform of Congress is a place for one-way speech. You cannot construct any dialogue," says Felipe Vicencio, a senator from Mr Fox's National Action Party (PAN) and a member of the peace commission that drafted the bill. "It shows that their priority was not to hold a dialogue and exchange ideas."

Mr Fox, meanwhile, ended up with a sharp slap in the face from his own party. All but one of the PAN legislators, including moderates like Mr Vicencio, had voted against letting the Zapatists speak in the main chamber. Most members of the Institutional Revolutionary Party (PRI), the main opposition, voted in favour. Though that left the PAN looking stubborn and reactionary, which was the PRI's intention, it also left Mr Fox looking weak.

That bodes ill for the future. The president's priority this year is a fiscal reform aimed at simplifying the tax structure, closing tax loopholes, increasing revenue and encouraging savings and investment. His spending plans for his six years in office depend on it. He had hoped to pass the reform in the current session of Congress, which ends on April 30th. But it has yet to be presented, though it should be in the next few days. It will involve the removal of exemptions to VAT—on, for instance, food and most medicines—which all the parties will resist strongly. The consensus is that it will probably not pass until September, or even later.

Mr Fox's failure to move more quickly on the fiscal reform is adding to rumblings of discontent among businessmen. Many think that he has devoted too much attention to the Zapatists. The failure also affects Mexico's attractiveness to investors—important, given its vulnerability to any recession in the United States. Moody's, a credit-rating agency, gave Mexico's debt an investment-grade rating last year,

but Standard & Poor's, another agency, has said it will not award the grade until a fiscal reform is passed. Big pension funds in the United States need both ratings to invest in Mexico.

The president is still popular among ordinary Mexicans. After 71 years of one-party rule by the PRI, nobody expects change to be swift. But after four months in office, Mr Fox has no big achievements to point to. Peace, or at least peace talks, with the Zapatists would be one; the fiscal reform, another. If neither happens soon, Mr Fox risks getting a reputation for being ineffectual.

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Cavallo talks, Argentina expects

Mar 29th 2001 | BUENOS AIRES
From The Economist print edition

IF ECONOMICS were just a matter of public relations, Domingo Cavallo would be home and dry. Much of what he has done in the first ten days since he became Argentina's economy minister has been to talk up shamelessly his country's seemingly bleak prospects.

EPA

A good line in boosterism

Not without success: after nine months in which the Alliance government of President Fernando de la Rua tore itself apart with squabbles, Mr Cavallo has brought some much-needed political grip. For only the third time in a century, the Argentine Congress agreed to meet over a weekend—to discuss the minister's Competitiveness Law.

The legislators swiftly approved one of its main provisions, a new tax on financial transactions (to be set at 0.25%). After several days of debate, the lower house also approved emergency powers that will allow Mr Cavallo to change other taxes, and reform government—but not to cut jobs, wages or pensions, or to privatise the state's few remaining assets. The Senate was expected to follow suit.

Mr Cavallo made light of the restrictions. He plans a sweeping tax reform to cut evasion. Investors have reacted with cautious optimism. On March 27th, the government managed to sell $350m of three-month treasury bills at an interest rate of 11%. That was lower than expected, but far too high to reassure the markets that Argentina could pay its debts.

Mr Cavallo's response was that the government would not raise more money until rates had fallen. He also denied that he would seek extra aid, from the IMF or anyone else. He took that message on flying visits to Brazil, Argentina's largest trade partner, and Spain, Argentina's largest foreign investor.

The bravado has had an effect. Even though Mr Cavallo's main measure so far has been a tax increase, "Everyone is talking about [the economy's] reactivation," says Norberto Sosa, of Raymond James, an investment bank. The boosterism may even, he says, reverse the net outflow of private capital from Argentina since the Alliance took office. Mr Cavallo is trusting in tax breaks and tariff cuts to encourage manufacturing and exports.

The test of all this will come soon enough. Argentines and investors alike will be watching for signs of an economic revival. And Mr Cavallo may struggle to maintain political support. He has relied on the opposition Peronists to pass the latest measures. With a congressional election due in October, their support may not last. Mr Cavallo enjoys a challenge. He has certainly found one.

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Wahid says sorry, up to a point

Mar 29th 2001 | JAKARTA
From The Economist print edition

Indonesia's president remains at risk from parliament

"HE HAD some modest successes, yet he failed to make Indonesia work." That is the verdict on Abdurrahman Wahid in Tom Clancy's latest novel, in which America's special forces are dragged into an Indonesian crisis. Nuclear terrorism in the Molucca islands seems a little far-fetched, even for a writer of military thrillers. But Mr Clancy's description of Indonesia in 2005 seems fair on two counts. Mr Wahid is indeed likely to be just a memory four years from now; and Indonesia is likely to remain one of the world's most troubling hotspots. So while Mr Wahid faced parliament this week to fend off efforts to impeach him, many onlookers were asking whether his removal would improve matters. The parliamentarians, by contrast, concentrated on a narrower question: how soon could they dump him?

EPA

Defiant Wahid

The answer was, and is, quite soon. That is why Mr Wahid, who controls only 10% of parliament's seats, badly needed to change a few minds with his speech on March 28th. He delivered it in response to a censure motion on February 1st, the first step in a multi-stage process to impeach him, ostensibly over a couple of financial scandals. The next stage comes at the end of April, when parliament is due to consider this week's response and decide whether to issue a second, final, warning. By early June it can start to arrange a formal session to remove him. That, at least, is the official procedure. In their race to unseat the president, however, some political factions have simply lapped him, drawing up a second censure motion even before he had responded this week to the first.

So how did Mr Wahid decide to address these hostile parliamentarians? By telling them that they were all wrong. Mr Wahid did not merely proclaim his innocence of any wrongdoing in the two scandals, which involve embezzlement from a state agency and an improper donation from the sultan of Brunei. Nor did he waste much breath rebutting the circumstantial evidence. Instead, he denounced parliament's first censure motion as "baseless". It was, he said, accurately enough, "the result of a dislike of the president or aimed at toppling the president". He may be less than wise in thinking he can change minds by questioning parliament's authority.

Mr Wahid has taken such calculated risks before, using the same defective abacus. Early in his presidency, he likened parliament to a kindergarten. Last year, when he dismissed two ministers, and then accused them of corruption, he refused to explain himself to parliament, and now objects to its efforts to question him about the two financial scandals, trotting out constitutional experts and damning the exercise as illegitimate.

To be fair, Mr Wahid has good reason to question parliament's motives. Its 500 members clearly want to flex their muscles by showing that he serves at their pleasure, whether the constitution says so or not. Moreover, many of them are schemers out to weaken whoever is in power, so they can continue to plunder the state. Nevertheless, they make up Indonesia's first freely elected legislature in over four decades, and many of them have real worries about the country's predicament.

For 17 months they have listened to Mr Wahid rattling off promises, while hardly anything has been accomplished. Unsold banks and industrial assets continue to languish in the bank-restructuring agency. The currency remains feeble. Loans from the IMF are on hold, and negotiations stilted. Other creditors and potential lenders are watching with alarm. Violence is widespread, nervousness almost universal. The justice system is a joke. Everyone knows that ex-President Suharto left behind a mess, that factional politics are not helping, and that the division of powers between parliament and the president is disturbingly vague. But nobody is talking these days about failures of history, parliament or the constitution. The talk is of a failure of leadership.

Mr Wahid's only hope of survival, therefore, is to persuade enough members of parliament—among them, crucially, the faction of his vice-president, Megawati Sukarnoputri—that he will now change his ways. A deal to hand more power to Miss Megawati and bring in a better team is still not unthinkable, and many onlookers do not rule it out. But Mr Wahid was given a chance to do that last August, and blew it. Few members of parliament now trust him. This week's speech was one of his few remaining chances to convince people that he had got the message, and would act on it.

To some extent, Mr Wahid seemed to understand this. Despite his criticism of the impeachment procedure, much of the speech was conciliatory. He was sorry, he said, if people thought he had "acted improperly or against their liking". He admitted to being "unco-operative" in the past, and offered to change. He even said that he now welcomed efforts to bring out the facts of the financial scandals, while remaining vague about just how he would co-operate.

Parliament's reaction to the speech, however, means much more than what he said. Many members did not like it, and were clamouring to bring forward the second censure vote. Perhaps in an indication of which way her party would vote, Miss Megawati did not read the speech for him, as she has on past occasions, leaving that task to the justice minister (Mr Wahid is almost totally blind). If it was intended as a sincere break with the past, therefore, Mr Wahid's speech offered too little. And whatever he does now may prove too late.

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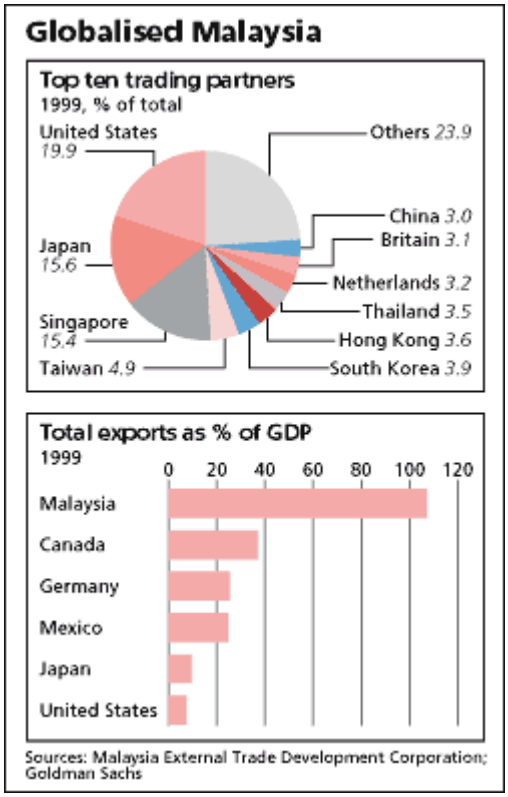
Malaysia

Doctor's orders

Mar 29th 2001
From The Economist print edition

FOR all Mahathir Mohamad's complaining, the United States has helped his country's economy far more than it has helped most others over the past few years. Malaysia exports 23% of its GDP to America, much of it in electronics. That is one of the highest ratios in the world. Those exports, along with shipments to the rest of the world, have helped to prop up the economy during the tough times since 1998, even as Dr Mahathir has railed against the evils of globalisation. Now, however, the American economy is slowing, taking the world economy with it. Across East Asia, analysts are slashing export-growth forecasts to half of last year's rates, in some cases to less. The slowdown will deal Malaysia an especially stiff blow, and this week Dr Mahathir said what he was planning to do about it.

Unsurprisingly, he intends to dish out a large helping of self-sufficiency. On March 27th, he announced measures worth 3 billion ringgit ($789m) to help boost demand. They come on top of a 28.8 billion ringgit spending plan announced in October. The prime minister thinks the combined fiscal kick will add more than a percentage point to GDP growth. But will all the money be well spent? And what, in these worrying days, is Dr Mahathir's prescription for Malaysia's economic links with the outside world?



The first question is asked often, and the prime minister's answers have never been convincing. Although he will channel some of the new money into sensible projects, such as schools and social services, he will also keep financing misguided infrastructure projects, such as the Bakun dam in Borneo. His government is also under fire for bailing out several well-connected companies. Three government-linked funds, including the main social-security fund, took stakes this month in a telcoms company after a feeble public offering. The company's owner had friends in high places. Decisions like this continue to hurt Dr Mahathir's popularity, hold back his country and disappoint foreign investors.

Dr Mahathir's approach to those investors remains contradictory. This week, along with the measures to stimualte the economy, he announced a loosening of the regulations on foreign equity ownership. He also said he would make it easier for foreigners to buy property and other assets. Though these are welcome changes, their effect will be muted by foreign wariness of Malaysia.

It is not that Malaysia shuns investment. Indeed, Dr Mahathir goes out of his way to lure foreign companies to his sprawling IT park, which is still largely vacant. He has also boasted of Malaysia's attractiveness to direct investors, even as he has excoriated speculators and western economic imperialism. His calculation has always been that he can lambast the West, and its globalising ways, while winking at its emissaries and helping them to set up shop.

This provides a useful distraction at home, without forestalling the growth Dr Mahathir needs to feed the government's patronage machine. That is how things used to work, anyway. Most foreign direct investment, however, is now going to China, as Malaysia is seen to be too similar to its corrupt neighbours. That will hurt Malaysians—but will Dr Mahathir feel it?

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Pakistan

Lust for power

Mar 29th 2001 | LAHORE
From The Economist print edition

General Musharraf may be planning to stay in charge indefinitely

Reuters

Crackdown on Khan (left)

THE octogenarian leader of Pakistan's Alliance for the Restoration of Democracy (ARD), Nawabzada Nasrullah Khan, is a happy man. For months he has tried and failed to inject some life into the ARD, which is mainly made up of supporters of the two discredited former prime ministers of Pakistan in exile, Nawaz Sharif and Benazir Bhutto. Now Pakistan's self-appointed "chief executive", General Pervez Musharraf, has lent a hand by banning an ARD rally in Lahore that had been called for March 23rd (Pakistan Day), having earlier arrested hundreds of suspected would-be protesters in midnight swoops across Punjab province.

The extraordinary lengths to which the government went to thwart the rally— which was expected to be a tame affair anyway since the public remains disenchanted with politicians—gave the ARD more publicity than it had mustered in the 12 months since it was formed. All entry points to the proposed site were sealed off by baton-wielding police contingents stationed behind barbed wire. Several politicians were expelled from Lahore, and Mr Khan was locked up in his bedroom. Since most of the people arrested have since been released, some have shrugged off the affair as a case of "overkill". But a more sinister explanation cannot be ruled out.

The army is in no mood to brook political dissent. It is busy assembling a network of elected local councillors who owe their allegiance not to the main political parties, but to the new masters in khaki. Hence the "non-party" local elections, which kicked off last January and whose second stage was already set for March 21st, two days before the proposed ARD rally. General Musharraf had been touring the country exhorting small gatherings of influential people everywhere to reject "discredited politicians" and demonstrate support for his plans to devolve power to the local or municipal level. "By banning the rally, he wanted to send a signal to potential voters that they shouldn't waste their votes on politicians who wouldn't amount to anything in any future set-up," says one pundit.

In recent months, General Musharraf has also been partial to the idea of manufacturing a "king's party" out of Mr Sharif's Muslim League. For weeks, his intelligence agencies have combed the lairs of Sharif loyalists across the country, cajoling them into supporting anti-Sharif dissidents led by Mian Azhar, a former governor of Punjab. The big day for Mr Azhar's "election" as president of the Muslim League in place of the ousted Mr Sharif was March 25th. This may explain why the ARD could not be allowed to go ahead with its rally, which might have buttressed support for Mr Sharif.

Despite its crackdown on the ARD, the regime was happy to provide the best cricket ground in Islamabad for Muslim League dissidents to hold their public meeting and elect Mr Azhar as their new president. The "king's party" may be needed, not just to win the proposed general election next year, but also to advance General Musharraf's plans for what happens after that.

On March 25th, the general coyly admitted, for the first time since seizing power in October 1999, that he had no intention of retiring as army chief on October 7th this year when his term officially comes to an end. That presumably means he intends to give himself an extension, with an eye to installing himself one day as president of Pakistan. In a chat with businessmen some weeks ago, he was reported as saying as much.

There is nothing new in this idea. The three other generals who seized power—Ayub Khan in 1958, Yahya Khan in 1969 and Zia ul Haq in 1977—all ended up as both president and army chief. And all presidents since Zia have kept the power to sack prime ministers and parliaments at will.

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The salaryman's song

Mar 29th 2001 | TOKYO
From The Economist print edition

THESE days the salaryman, workhorse of Japan's economic miracle, is a national joke. His company wants to sack him. His wife despises him. His children laugh at his boring blue suit and his out-of-date ways. Among middle-aged Japanese men recently, suicide rates have soared so high that they are making a real difference to the profitability of life insurers. Yet the salaryman may at last be learning to smile again.

The business-book market is one guide. Only six months ago, bookshelves were groaning with pessimistic titles, predicting bond-market crashes, more recession, banking crises and assorted other disasters. Recently, however, optimism has been doing rather well, if only of the cloud-and-silver-lining sort. Among the bestsellers this week, for instance, was "The Recommendation of Failure," a book about how to make the best out of one's setbacks. Also doing well is a nationalist rant by Shintaro Ishihara, the governor of Tokyo, called "The Japan that Wins", and a book by an American self-help guru that uses cheese as a metaphor for adjusting to change. There is even one predicting the return, in 2002, of Japan's boom economy.

Tokyo's karaoke bars, meanwhile, are cheerier places thanks to a three-boy pop phenomenon called Urufuruzu. The band's song, *"Ashita ga aru sa"* ("There is tomorrow"), has become a salaryman anthem, helping its sponsors, Coca-Cola Japan, to sell ever larger quantities of canned coffee, standard salaryman fuel. The song mixes life's trials with carefree cheerfulness. Anyone working for Nissan, once proudly Japanese but now run by Renault of France, will know all about the third verse:

> I've got a new French boss
> Body language doesn't work
> Here's a chance
> I shall go back to my studies
> There's always tomorrow.

The mood seems to be spreading. The stockmarket is up a bit from recent lows. Rumours of bank failures subsided, and even Yoshiro Mori, the outgoing prime minister, had a reasonably good few days—at least until a gaffe on Tuesday involving the Norwegian royal family. Oh well, there's always tomorrow.

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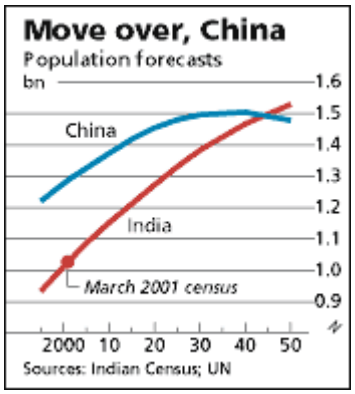
A billion Indians now

Mar 29th 2001 | DELHI
From The Economist print edition

IT'S official: there are two countries now with populations of over 1 billion. The provisional results from India's census showed this week that its population has reached 1.03 billion, up 180m (more than Brazil's entire population) since the last census ten years ago, and catching up with China's 1.26 billion.

United Nations forecasts suggest that India will overtake China between 2045 and 2050, when both countries will have populations of around 1.5 billion. But China manages the welfare of its people better: UN figures show that 83% of China's adults are literate compared with 65% in India, and that infant mortality is only 38 deaths per 1,000 live births compared with 70 in India.



India's census results do, however contain some good news. The average annual rate of population growth fell from 2.1% in the 1980s to 1.9% in the 1990s, while literacy, at 65%, rose sharply from the 52% of ten years ago, with much of the increase to be found among women.

The improvements are inter-related. They have largely been caused by improved education, especially for women, plus rapidly expanding access to information through television, even in remote villages. The improvements are most marked in the southern states of Tamil Nadu, Karnataka and Andhra Pradesh, where forward-looking governments have opened up local economies and improved social services faster than in the north. These states are catching up with Kerala, traditionally India's most literate state (91%), and are drawing further away from the benighted northern states of Bihar and Uttar Pradesh. Bihar's literacy rate is 48%, little over half Kerala's, and its population growth rate is increasing.

Perhaps the most surprising aspect of the census is the speed at which India's normally slow-moving bureaucracy has managed to produce these statistics. They were published this week in a 180-page report only 25 days after the census date of March 1st, which involved 2m enumerators in 650,000 villages and 5,000 towns. If only the Indian government would more often move as fast.

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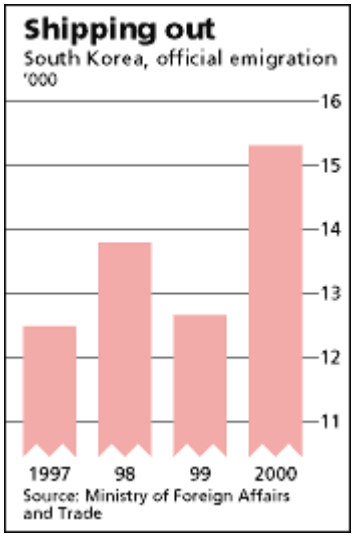
South Korea

Leaving home

Mar 29th 2001 | SEOUL
From The Economist print edition

LIKE many South Koreans, Choi Dae Up believed that a change of government would transform the country after the late-1990s Asian crash. But three years after Kim Dae Jung became president, after spending nearly half a century in opposition, the changes that Mr Choi hoped for have not happened. He has decided to emigrate to Canada. Tens of thousands of other South Koreans, many of them white-collar workers in their 30s and 40s, have chosen to make their lives elsewhere. Apart from Canada, favoured destinations are the United States and New Zealand.

Last year, more than 15,000 South Koreans acquired foreign passports, up by 21% from the previous year. In the first two months of this year, the number rose by a quarter from a year earlier. When Koreans living illegally abroad are included, the figures are much higher.



Education is one of the country's problems that bother people such as Mr Choi. Teaching used to be a top job. Now teachers are poorly paid and their quality is judged to have fallen. Many parents pay high fees to private tutors to supplement their children's poor schooling.

But even a good education no longer guarantees you a job in Korea. Hundreds of thousands of graduates, many of them with good degrees, are unemployed. South Korea's official unemployment rate rose to 5% in February but the true rate is believed to be much higher. The situation may get worse this year, with real GDP growth forecast to slide to below 4%, having been 8.8% last year.

On top of that, the country's national health-insurance fund has nearly run out of money. Koreans must pay higher premiums or the fund will have to get a top-up from the state. The fund's problems appear to stem from a government "reform" last year. Doctors were barred from selling prescribed drugs directly to patients. In fear of losing much of their income, many doctors went on strike for a few days last September, closing hospitals and clinics. Several deaths were attributed to the strike. To appease the doctors, the government let them increase their fees for writing prescriptions for drugs. That, along with fraud carried out by some doctors, has contributed to the depletion of the insurance fund.

This week President Kim sought to tackle these problems, as well as more general grumbles, by shuffling his cabinet. He replaced half of his senior ministers, among them those dealing with health, foreign affairs and the eventual unification of the two Koreas. His critics see this as a prelude to more changes ahead of a presidential election next year.

But changing ministers is, by itself, unlikely to help the president regain his lost popularity. The opposition is certainly unimpressed: it simply calls him a lame duck. Many ordinary Koreans are more seriously disillusioned. One Seoul psychoanalyst says that South Koreans—who became used to ever-rising incomes and job security during the tiger years—are overwhelmed by a sense of helplessness, which drives people such as Mr Choi to emigrate.

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Taiwan

China again for the Kuomintang

Mar 29th 2001 | TAIPEI
From The Economist print edition

ONE year after the Kuomintang (KMT) lost a bid for Taiwan's presidency and thus suffered its greatest defeat since 1949, the man primarily responsible for that blow, Lien Chan, was elected unopposed as party chairman on March 24th. Mr Lien's success was no surprise, since he has been running the party since its previous chairman, Taiwan's former president, Lee Teng-hui, resigned after Mr Lien's defeat at the hands of the Democratic Progressive Party (DPP). But that the KMT's membership should stick with Mr Lien, a man without noticeable campaigning skills or popular appeal, shows a reluctance in the party to face up to reality.

Rather than question Mr Lien, the party faithful have preferred to blame Mr Lee, a proven election winner shunned by Mr Lien's campaign team for his attempts to move the KMT away from its traditional ideology of seeking reunification of China. During his presidency, Mr Lee had preferred to concentrate on developing a brand of Taiwanese nationalism—a step short of pushing for independence, but a step away from the long-standing myth that there is just one China.

Since taking over from Mr Lee, Mr Lien has in the past year led the party back to its roots, much to the bewilderment of commentators who believed that 12 years of Mr Lee had banished the idea of reunification to the fringe of Taiwan's politics. But there is a degree of calculation in the KMT's thinking. Since the party is unlikely to capture many votes from the DPP, its chief target in the legislative elections due at the end of this year is the People First Party, far smaller, but led by the able and popular James Soong. Mr Soong is also a committed reunificationist, and the KMT seems to be emulating him.

The KMT also appears to have a more long-term goal. As Taiwan's ruling party, it was handicapped in its dealings with China by Mr Lee's insistence that all contacts and negotiations should be on a basis of equality between the two central governments, something China always refused to accept.

Now that the KMT is out of office it can talk to Chinese officials as it pleases, as an increasing number of senior party officials have been doing. The party's ambitious goal is to hash out a formula for some version of reunification acceptable to both China's leaders and Taiwan's voters. At present, the talk is of confederation, probably after a protracted period of economic integration. Bringing this about will, however, take more political skill than the KMT's leaders have recently shown.

For Taiwan's voters, the KMT's shift from the mildly Taiwanese-nationalist middle of the political spectrum to the reunificationist edge has left them with a difficult choice. Mr Lee has refused to launch a new centrist party, which means the DPP—itself once seen as a bunch of dangerous pro-independence hot-heads—is now the only party holding anything like Mr Lee's very popular attitudes. But the DPP's performance in office has been dire. Taiwanese would like to vote according to their economic interests, but do not at the same time want to vote for reunification with China. At the moment, they have little choice.

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Doubts on both sides of the Atlantic

Mar 29th 2001
From The Economist print edition

Europe is worried about George Bush's America—and vice versa

MIGHT George Bush yet succeed where Europe's leaders have not, in forging a common foreign policy for the European Union? Having settled little of their own business at their Stockholm summit (see article), over dinner the EU 15 decided to step in where America still hesitates to tread: their president for this half-year, Sweden's prime minister, Goran Persson, together with the Union's two top foreign-policy officials, Javier Solana and Chris Patten, will meet North Korea's Kim Jong Il sometime in May. The aim, said Mr Persson, is "to express support for the [peace] process started by the South Korean president, Kim Dae Jung." The point, said Sweden's foreign minister, Anna Lindh, is that Europeans are getting twitchy at Mr Bush's more "hardline" approach towards North Korea. Europe, she added, "must step in."

Such twitchiness is not confined to Mr Bush's Korea policy. Europeans expected the smack of firmer leadership from the new administration in Washington, but have been taken aback that so far it seems all smack and little leadership. They listen nervously as Mr Bush talks more of threats than of diplomatic opportunities, whether the issue is North Korea, missile defences, relations with Russia or arms sales to Taiwan. He had rattled his NATO allies even before he took office by allowing Condoleezza Rice, now his national security adviser, to think aloud about pulling American troops out of the Balkans. He has since torn up his promise to limit greenhouse gases, an issue dear to greener European hearts. And where Mr Clinton was deeply engaged—in talks with North Korea, mediation in the Middle East and peace-making in Northern Ireland—Mr Bush has deliberately stepped back.

But does that necessarily mean that Europeans can—or should—step in? A common foreign policy based only on their differences with America would serve European leaders ill, and they know it.

"This is the hour of Europe, not the hour of the Americans," declared Luxembourg's foreign minister almost exactly ten years ago, launching a notoriously futile mission to mediate in the Balkans. The minutes ticked away to years as the Bosnian crisis claimed many thousands of lives, got Europeans themselves at cross-purposes and all but ruptured the transatlantic alliance.

Ten years on, the EU has started to craft some common foreign policies. But its leaders are also being careful not to pick unnecessary fights with the United States. For example, although some, notably France's President Jacques Chirac, remain deeply sceptical about Mr Bush's plans for new missile defences, believing they could diminish Europe's security rather than enhance it, all now accept that a bust-up within the alliance over the issue would do even greater harm all round. Russia, which had been attempting to cosy up to Europeans in the hope of presenting a hostile common front to America, was told to back off.

Once Mr Bush has more of his new team in place, other foreign-policy differences may start to seem more apparent than real. America's switch to promoting "smart" sanctions against Iraq—ones that tighten controls on military imports and oil smuggling, while relaxing restrictions on other goods—is already helping to heal a rift that has split France and Britain as much as Europe and America. In the Middle East, Europeans recognise that, whatever their irritation at having to write most of the cheques, America is the outsider that counts. Their worry now is just that a too hands-off Bush administration will lose what few opportunities there are to get talks going again between Israel and the Palestinians.

Meanwhile, faced with yet another Balkan crisis, this time in Macedonia, the Europeans and Americans are working closely together, both diplomatically and militarily. While Balkan policy, like everything else, is up for review by the new administration, Europeans were greatly reassured recently when Colin Powell, Mr Bush's secretary of state, pledged that Americans and Europeans would go "in together and out together" in their Balkan peacekeeping mission. This comradeship could, however, be sorely tested if Macedonia, like Bosnia and Kosovo before it, were plunged into bloody civil war—especially if it claimed American peacekeepers' lives.

The Balkans aside, the trickiest transatlantic differences over the next two years could well be over the EU's plan to set up its own rapid-reaction force by 2003, and over NATO's plans for further enlargement. Some European officials worry that, to the extent that Mr Bush welcomes a greater European defence effort, it will be so that he can turn his attention and military resources away from Europe to Asia, as his defence secretary, Donald Rumsfeld, implied last week. That might not bother France, which wants Europe to be more "autonomous" in defence; Britain and Germany, however, want to keep the transatlantic link strong. Conscious of the difficulty of finding the cash for really useful soldiers who would be available to NATO as well as the EU, their officials tend to worry that failure to put in the extra defence effort promised will produce recriminations that could damage NATO.

Just as troubling to the Europeans is what they fear may be a big row before next year's NATO summit over which countries, if any, should now be invited in as new recruits. Opinion within Europe is divided, though most countries would probably prefer no new members, since it is proving expensive enough to assimilate Poland, the Czech Republic and Hungary.

The biggest difficulty will be over Lithuania, Latvia and Estonia. Russia is hostile to any of its former territories joining NATO; some on America's Republican right seem equally determined to bring the Balts in, precisely in order to spite the Russians. Europeans are not sure what to worry about most: another great Russia-NATO bust-up or the possibility that the United States and Russia could cut a deal over their heads to finesse their differences over other issues, including missile defences.

And where does the EU's Korean initiative fit into all this? The idea has been in the works for some time, in the hope of encouraging the northern Mr Kim to make a promised but much delayed visit to South Korea. North Korea now has diplomatic relations with all EU governments except France and Ireland. Mr Persson and his team can help keep the diplomatic traffic moving at a time when America is still thinking through its North Korean policy.

And the bit of grandstanding at the EU summit? Neither North Korea nor South Korea has any illusions that the Europeans have influence, or indeed till now much interest, in Korean affairs. Although the EU takes part in the consortium that is keeping a freeze on North Korea's nuclear programme by supplying two less proliferation-prone western reactors, its financial contribution to the project is minuscule. When it comes to forging a genuine foreign policy for Europe in the wider world, words not deeds still come easiest and cheapest.

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The row over the EU's market isn't over

Mar 29th 2001 | BRUSSELS
From The Economist print edition

EPA

They kicked energy into touch

WHATEVER happened to the European Union's agenda for economic reform? Does anyone still recall those brave words about creating the most competitive and dynamic economy in the world by 2010? That was the ambition proclaimed by the EU's leaders at a special gathering in Lisbon only a year ago that was supposed to provide a platform for launching Europe's economy into a higher orbit of reform. And there were to be annual follow-up summits specifically devoted to ensuring that the grand promises made at Lisbon were being kept.

Last weekend's meeting in Stockholm was supposed to have been the first of these annual checks. A pity, then, that the same European leaders who had decided in Lisbon that the subject of economic reform merited a yearly spring summit spent so much of their time in Sweden talking about Russia, North Korea and the Balkans.

One issue carried over from the Lisbon agenda did create a stir: how to open national energy markets up to EU-wide competition. In Lisbon, France had resisted attempts to set deadlines on the matter. In Stockholm, Lionel Jospin, France's prime minister, was put in the dock, with Britain's Tony Blair and Spain's Jose Maria Aznar complaining that Electricité de France (EDF) had invaded their markets while enjoying monopoly protection at home. Mr Jospin defiantly argued that energy supply was a public service demanding special treatment. Predictably, he cited the problems to do with supposed deregulation in California. Mr Aznar demanded, at a minimum, reciprocity: if Spain opened its market to France, the least France could do was to open its market to Spain, if not to the whole EU. That is an idea that horrifies the European Commission, which regards bilateral deals in market matters as little better than jungle law that would undermine Europe's single market.

The commission, encouraged particularly by Italy's prime minister, Giuliano Amato, sought to find a way between what it sees as the the twin perils of French defiance and reciprocity. EU leaders said, hopefully, that EU competition law should ensure that companies that "still benefit from a monopoly situation in their national market will not unduly benefit from that situation". It remains to be seen whether the European Commission will, in the end, have the courage to take on the French government.

The commission can already use antitrust law as a weapon to try breaking up national monopolies in utility services, but commissioners have so far ducked the challenge. Will the commission dare to block an acquisition by EDF on the ground that the French company is abusing its dominant position in the home market? The commission chose this week to make threatening noises about countries that allow gas-supply contracts between two countries which specifically keep out companies from others.

It was notable at Stockholm how reluctant Germany was to join those trying to squeeze the French. For its chancellor, Gerhard Schröder, the top priority was plainly to mend relations with France, which have been rocky, particularly since discord over the revision of treaties agreed on at the EU's December summit, in Nice. But away from the limelight of a grand gathering, Mr Schröder might yet argue against

French monopolies. Huge German utilities like RWE and E.ON are impatiently queuing up to enter the French market. They will be furious if the German chancellor remains meek in the face of the French.

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Germany

Mixed figures

Mar 29th 2001 | BERLIN
From The Economist print edition

AP

For Schröder and Vogt, a cosy result

BOTH the ruling Social Democrats and the Christian Democrats had reason to be pleased with the results from elections in two south-western states last weekend, the first in Germany in ten months. In Baden-Württemberg, the Christian Democrats retained power, with a four-point gain, to win 45% of the vote, despite the party's continuing slush-fund scandals and bitter leadership struggles at the national level. But the feisty young Social Democratic challenger, Ute Vogt, boosted her party's score from its previous 25% to 33%. In Rhineland-Palatinate, Kurt Beck, the popular Social Democratic premier, romped home with an unexpected 45% of the vote, five points up on 1996, despite growing economic gloom. Here, the home state of ex-Chancellor Helmut Kohl, the man at the centre of the slush-fund mess, the Christian Democrats dropped three points to 35%. But that was not as bad as many had feared. Angela Merkel, the party's leader and would-be candidate for chancellor, sees her position strengthened.

What is going on? The mixed results may reflect mixed news from the economy. As the American economy has cooled and expensive oil and a partly revived euro have begun to take their toll, economists have begun to revise their growth forecasts sharply downwards, with most predicting little over 2% this year, down from more than 3% last. With the voting over, the government too is expected to lower its "at least 2.6%" to maybe 2.2%. Business confidence dropped last month to it lowest since mid-1999. Even unemployment, which had fallen steadily since Mr Schröder came to power, is on the rise again.

Yet exports remain strong, and industrial output is still rising. Consumer spending, though sluggish, is expected to be boosted by cuts in income tax. And though Germans are worried by the general economic climate, more than half still describe their own situation as good, only 7% as bad. Most economists believe the fundamentals remain sound and expect growth, which has been falling since last summer, to pick up again by the second half of this year.

The real losers last weekend were the fringe parties: the far-right Republicans, the Free Democrats (Germany's liberals) and the Greens. The Republicans, who took 11% in Baden-Württemberg in 1992, could not reach the 5% needed to get a seat this time. The Free Democrats, hoping for double figures, dropped back to 8% in both states, much damaging their hopes of seeming a credible alternative to the Greens as coalition partners for the Social Democrats after next year's general election.

Their only comfort was that the Greens fared even worse. They fell to fourth place in Baden-Württemberg and barely hit the magic 5% mark in Rhineland-Palatinate.

The Greens, who won just under 7% in the last general election, have been steadily losing ground for the past three years. They were not helped by an outburst earlier this month from Jürgen Trittin, the Green environment minister, accusing the Christian Democrats' balding general secretary, Laurenz Meyer, of "not just looking like a skinhead but having the mentality of one", because Mr Meyer had dared to announce that he was "proud to be a German", a phrase appropriated by the neo-Nazis.

The opposition is now baying for Mr Trittin's blood. Even some Greens have distanced themselves from him, warning him that enough is enough. The chancellor, Gerhard Schröder, while admitting that Mr Trittin has become a "risk", is loth to lose another minister, having lost seven already. But he has pointedly repeated that, if the Social Democrats win the next election, he is keeping his options open as to a coalition partner. The Greens still look the most likely choice; but, these days, no certain one.

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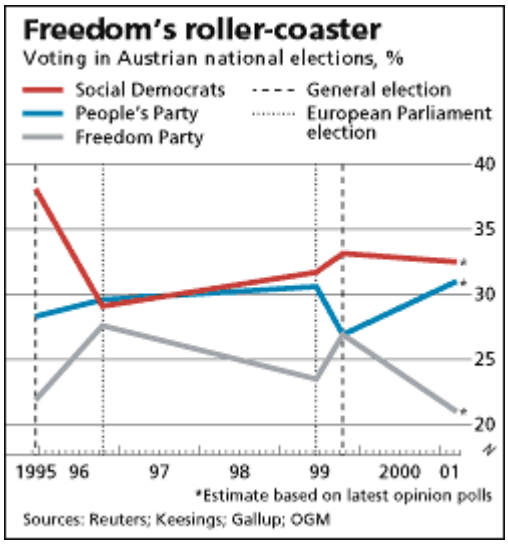
Austria

Vienna says no to Haider

Mar 29th 2001
From The Economist print edition

HIS far-right Freedom Party saw its share of the vote dip by over a quarter to 20% in Vienna's state election on March 25th. Now, as the party squabbles, Jörg Haider's own future may be at stake.

This was the first big test of his party's support since it joined Wolfgang Schüssel and his centre-right People's Party in national government 13 months ago. It is still number two in the state, where a fifth of the population lives, but it has suffered a bad blow, and for Mr Haider it may prove fatal to his hopes of one day becoming chancellor.



For the first time since he nominally stepped down as party leader last May, Mr Haider had hurled himself into the fray, sprinkling his speeches with quips that were xenophobic and, arguably, anti-Semitic. But Vienna's Social Democrats romped home with 47% of the vote, regaining their absolute majority of seats. The People's Party, their coalition partners in the city hall for the past five years, put on one point to 16%.

The European Union's sanctions against Austria after the Freedomites were allowed a share of power in the national government did the People's Party no harm. And the economy has been in good shape: 3.1% growth last year, unemployment below 4% and record exports and foreign investment. But voters dislike the government's painful spending cuts and welfare reforms, its internal squabbles and the increasing signs of drift in its policies. Pollsters say the Social Democrats have now reclaimed their usual nationwide lead, with about 33% of the vote, which is what they won in the last general election, in October 1999. The People's Party has climbed from 27% to 31%. But the Freedom Party has fallen from 27% to 20%.

Why? Joining the government cost it much of its appeal as a protest party. It also lost the charisma of its clever, colourful and provocative leader, who had agreed to withdraw from national politics to devote himself to his governorship of Carinthia, Austria's southernmost state, which he has held since 1999. When he took over the party's leadership 15 years ago, it could not muster even 5% of the national vote. He had hoped in Vienna to help boost its flagging fortunes before the next general election in 2003. Now, as after last autumn's state election in Styria, where the Freedomite vote fell by a third to a mere 12%, rumours are rife as to his next move.

When his party first entered national government, Mr Haider promised the voters of Carinthia that he would stay with them at least until the next state election in 2004. But even before the vote in Vienna it was being whispered that he had asked his deputy in Carinthia to take over there, should he feel compelled to return to the national stage. Despite repeated denials, the whispers that he will do so have grown to a roar.

Mr Haider is said to have demanded that heads must roll in the party after its humiliation, hinting that otherwise he might leave. The victims could include Susanne Riess-Passer, the party leader and Austria's vice-chancellor, and Karl-Heinz Grasser, the finance minister.

Mr Haider was notably absent when his party's leaders gathered this week to discuss its woes. Flu, said his press officer. Others claimed he was perfectly well, but wanted to avoid the full blast of the power struggle now raging. Which way it will go is unclear. Some Freedomites have begun to suggest that they could live without the difficult Mr Haider. But many still feel that that would mean the party's collapse.

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Charlemagne

Arben Xhaferi, Macedonia's pivotal Albanian

Mar 29th 2001
From The Economist print edition

Get article background

HOW much time, and how much room for manoeuvre, does Arben Xhaferi, the modulated voice of Macedonia's aggrieved Albanians, still have left? That is the question on the minds of the many, from the south Balkan plains to the chanceries of Brussels and Washington, who are still hoping that a fresh, horrible war of Yugoslav succession can be avoided.

The past two weeks have been among the toughest for Mr Xhaferi (pronounced, roughly, Jafferi), a grey-faced, soft-spoken veteran of journalism and nationalist agitation with the battered, lived-in features of a Balkan intellectual. As leader of the Democratic Party of Albanians (DPA), which shares power uneasily—but from a position of some strength—with an old and apparently reformed Slavic-nationalist party, he personifies the belief that Macedonia's inter-communal quarrels may yet be ended peacefully.

Since mid-March, though, his position has been challenged by the sudden emergence of an ethnic-Albanian rebel movement, the National Liberation Army, which says it wants roughly the same things as Mr Xhaferi (in other words, sharply improved constitutional rights for Albanians in Macedonia) but insists that war will do the job more swiftly and certainly than politics; especially when the warriors can count on logistical support from cousins in Kosovo, whose Serb overlords were driven out in 1999.

By the end of March, after an offensive by Macedonia's gimcrack security forces to expel the guerrillas from the northern mountains where they had cheekily encamped, the government of President Boris Trajkovski was bold enough to claim that the spectre of civil war had been staved off; things could return to normal now.

In fact, as Mr Xhaferi knows all too well, there is no reason to be sanguine. At best, Macedonia's rulers have a small opportunity to satisfy the Albanians, who probably account for at least a third of the country's 2m people—without hopelessly alienating the Slavic majority. How to achieve that was the subject of some hard talking this week between Mr Xhaferi and Javier Solana, the European Union's foreign-policy spokesman, who has been shuttling between Brussels and Skopje, Macedonia's capital.

At a minimum, both seemed to agree, a new local-government law must be passed so as to give municipalities (including Albanian-dominated ones) the power to raise and spend money freely. The Albanian language, already used in many primary schools and in a fee-paying university that is due to open officially this autumn, must become the medium of teaching in some secondary schools as well. And the census, due to take place in a few weeks, must be fairly conducted so that the Albanians' true demographic weight, claimed by some to be approaching 40%, can be ascertained. That in turn should give Albanians a stronger vantage-point from which to seek changes in the constitution.

Unless all this was set in train rapidly, a weary-looking Mr Xhaferi was telling people this week, a renewed resort to violence by his people would be inevitable. And if the Slav-led government reacted intemperately to that violence, then he and his party would immediately leave the ruling coalition. These warnings were not so much threats as statements of hard political fact. If and when Macedonia's towns and villages become polarised, then everybody will simply reach for the nearest gun, including the DPA's activists, who are no strangers to hidden arms caches and have connections with the smuggling underworld.

In fact, however convenient it would be to divide the region's ethnic-Albanian leaders into pacifists and warriors, or moderates and extremists, the distinction is not a neat or easy one. Mr Xhaferi, for example, has been cast in many different roles. In 1968, at the age of 20, he was a keen organiser of demonstrations in his native Tetovo, Macedonia's main ethnic-Albanian town. After studying philosophy in Belgrade, he moved to Kosovo, where, during the two decades before Serbia quashed the province's autonomy in 1989, ethnic Albanians ruled the roost. As a senior editor at Pristina television, he developed a name as a critic of art, sculpture and the cinema.

When communist Yugoslavia started to break up, and new parties began to proliferate, Mr Xhaferi was never far from centre-stage in the politics of the ethnic-Albanian world. But it would be hard to pigeonhole him as a moderate or a hardliner. In Kosovo in 1990, he helped to found a Social Democratic Party whose manifesto was less nationalist than that of Ibrahim Rugova, the veteran leader of the Kosovar cause. But on returning to his native Macedonia in the 1990s, Mr Xhaferi surprised many people by the radicalism of his demands for greater rights for ethnic Albanians. He called for Macedonia to be "federalised", a measure which many people feared, or hoped, would lead to full partition.

For the past two years, he has been party to a "historic bargain" with the Slav majority. This meant setting aside his calls for federalism in return for cabinet seats and the promise of gradual improvements in his people's status. But at best, this has been a calculated, loveless deal between peoples whose mutual mistrust remains undiminished and is probably rising. The war over Kosovo in 1999, which left that province's ethnic-Albanian majority firmly in charge, has fuelled hopes among the Albanians, and fears among the Slavs, that a historic shift in favour of the Albanians is taking place across the whole region, as their demographic and economic weight rises.

If that is true, then the best hope of avoiding war is to manage that process in a civilised way—without a violent attempt to impose border changes. Mr Xhaferi's judgment, experience and personal authority could be crucial. But the constraints on his freedom of action are not only political. Although his mind is as sharp as ever, he is visibly suffering from a brain condition whose symptoms are similar to those of Parkinson's disease. His speech is often slurred and hard to understand. For that reason, too, people are asking: how long does Arben Xhaferi still have left in politics? And if he were to bow out, who might take his place?

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Russia

More of the same

Mar 29th 2001 | MOSCOW
From The Economist print edition

Vladimir Putin has replaced his defence minister with a civilian—a good move, in principle, but it will not make the war in Chechnya easier to win

Get article background

A DESPERATE need to reform Russia is particularly visible in the armed forces: ill-equipped, undertrained and demoralised, plagued by drug-taking, alcoholism and bullying. In the past 18 months, the war against breakaway Chechnya has cruelly exposed their shortcomings.

This week, with the country still jittery from three lethal bomb blasts blamed on Chechen terrorists, President Vladimir Putin replaced his long-serving defence minister, Marshal Igor Sergeyev, with Sergei Ivanov, formerly chief of the powerful security council. Mr Ivanov's replacement is the interior minister, Vladimir Rushailo. He is to pay special attention to Chechnya.

Mr Putin says that the changes mark the "demilitarisation" of politics. This would be a welcome step away from Soviet habits. It is partly true: Mr Rushailo's successor is a real politician, Boris Gryzlov, who heads the pro-Kremlin party in the Duma, Russia's lower house of parliament. But Mr Ivanov, though technically a civilian, was until very recently a general in the foreign-intelligence service.

Will it make a difference? The signs so far are that Mr Putin is better at talking about reform than implementing it. The only person sacked outright was the scandal-plagued atomic-energy minister; Marshal Sergeyev was given a sinecure. There are no changes yet in ministries dealing with the economy.

On military matters, there is little reason for optimism. Mr Rushailo's record on Chechnya at the interior ministry was poor. On past form, Mr Ivanov is a hawkish adviser, not a radical reforming administrator. In his first comment since getting the job, he said that changes in the armed forces would be "gradual". Cuts previously announced have yet to happen.

Meanwhile, the war in Chechnya needs a political solution. Russian officials have resolutely refused to meet the country's elected president, Aslan Maskhadov. They say the real fight is against a dwindling band of Islamic fundamentalists and foreign mercenaries and that their own administration of hand-picked Chechens is winning over the population and restoring normality.

Even senior Russian officials have increasing trouble saying that convincingly. Russia's latest estimate is that there are between 3,000 and 5,000 Chechen fighters at large. If so, their numbers seem to be growing: last year a rather lower figure was being given. Russia has also dropped a grand-sounding plan to send hit-squads to hunt down the top Chechen commanders in their mountain retreats, saying it is too risky.

The Chechens attack Russian soldiers every day, killing a dozen or so every week. A favourite tactic is the use of remotely-controlled mines. Mr Putin's spokesman, Sergei Yastrzhembsky, admits that the onset of spring will help the rebels. They can move more easily when the mountains are covered in foliage, rather than bare snow.

Although its treatment of the civilian population has improved a bit, the Kremlin is also losing the propaganda war. Despite Russian protests, senior State Department officials this week spent three hours talking to Mr Maskhadov's "foreign minister", Ilyas Akhmadov. He proposed a peace plan, and asked the United States to use its satellites, as it did in the Bosnian war, to help spot mass graves. One, recently unearthed, contained the mutilated bodies of dozens of Chechens.

There have been atrocities on the Chechen side too, particularly kidnapping. One senior Chechen

commander, Shamil Basaev, has posted a public apology on his website to Kenneth Gluck, an American aid worker abducted in January and released, unharmed, a month later.

Russian officials insist that Chechens were behind the bomb attacks in Moscow in 1999 that killed 300 and prompted the Kremlin to start the war. Chechen terrorists, they maintain, planted last week's bombs in southern Russia, which killed 23 people and injured 144, 15 of them seriously. Mr Maskhadov, however, strongly denies both charges. "We have never targeted civilians and we never will," he says.

Mr Putin shows no sign of a change of tack on Chechnya. Last week he pleaded for patience, comparing the war there to the Soviet Union's decade-long struggle after the second world war to crush the "forest brothers"—anti-Communist guerrillas in the Baltic states and Ukraine. Not perhaps the best comparison. Although the brothers mostly ended up dead or in Siberia, their countries are now independent.

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Poland

Jobs, please

Mar 29th 2001 | WARSAW
From The Economist print edition

FEW if any other ex-communist countries have done as well as Poland in creating jobs and luring foreign investment. But the economy that it inherited when communism collapsed a decade ago was ropy in the extreme. In the matter of job-creation, the 39m Poles have had to run just to stand still—and now they may be flagging. In 1999 the economy grew by just over 4%, last year by a shade more, but this year, at the latest guess, it will grow by not much more than 3%: not bad, but Poland must strive to get back to the 6-7% level of the mid-1990s if it is to stop the dole queue from stretching again.

Poles are nervous about high interest rates, rising crime and the swelling of an underground economy that is eroding the country's tax base. But their most acute cause for concern is jobs. Some 16% of Poles are now without one—the highest rate for six years. That means 2.9m Poles out of work, 1.2m more than in 1998. Some fear that the figure will exceed 3m before the year's end.

The bustling capital, Warsaw, is still booming; the problem there is a shortage of affordable housing, not jobs. But in the country, and in old industrial regions, the mood is very different. Silesia, in the south-west, is particularly hard hit, as still more coalmines are closing down.

Young Poles, who are looking for their first jobs in record numbers, are especially glum. A quarter of those between 18 and 24 are out of work; a third of recent graduates have yet to find a steady job. One reason is simply that there are so many of them. Unfortunately, the number of Poles coming into the labour market between 2006 and 2010 will rise still faster.

What can be done? For a start, the law should make it easier and cheaper to take on new workers. A Polish employer paying an employee $200 a month must hand over another $160 to the government in payroll taxes. Red tape makes it hard for the entrepreneurial to start small businesses. Jerzy Buzek, prime minister of Poland's shaky minority coalition which, pollsters guess, will be thrown out by the voters in the autumn and replaced by a government led by ex-communists, is calling for "more investment, more exports and lower labour costs".

Some economists think that compensation due to arrive this summer from German firms to surviving Poles used as slave labourers during the second world war could bring in nearly $1 billion. That might mean more consumer spending. But the country still has a trade deficit of $11 billion. Poland's post-communist economic boom may be ending.

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A Turkish lover of Picassos

Mar 29th 2001 | ANKARA
From The Economist print edition

HE HAS been accused of murder and convicted of heroin trafficking, but it may be fiddling with Picassos that gets him in the end. Mustafa Bayram, a Kurdish clan leader from Van province on Turkey's border with Iran, has twice been elected to the Turkish parliament by his clan's 40,000 votes, first for the conservative Motherland party (a partner in Turkey's current three-party coalition) and then in 1999 for the Islamic-minded Virtue party. But this week a suddenly high-minded parliament voted to strip Mr Bayram of his parliamentary immunity, so that he could be tried again.

It did so after Mr Bayram had been accused of trying to sell in Istanbul two stolen Picasso paintings, "The Clown" and one of a naked woman, using his chauffeur as a middleman. The paintings are the latest of seven Picassos seized by the Turkish police over the past year. All seven are believed to have been nicked from the Kuwaiti royal family by Iraqi troops during their invasion of the emirate in 1990, and smuggled into Turkey by Iraqi Kurds.

Nicknamed "Mustafa the Lame" after being wounded in a 1991 shoot-out in which he allegedly killed two men, Mr Bayram now faces trial on two more recent charges of heroin trafficking, not to mention a murder case. Western anti-drug officials will be watching with interest. Americans and Europeans alike see Turkey as a major transit route for heroin produced in Afghanistan, Pakistan and Iran. Some 80% of all heroin sold on British streets is believed either to have been processed in Turkey or moved by the Kurdish clans that control the trade.

Mr Bayram's daughter, Figen, is the second wife of Cumhur Yakut, a Kurdish drug baron described by a European security official as "the top heroin exporter" to Britain in the 1990s. America's Drug Enforcement Agency called Mr Bayram a "well-known heroin chemist".

Will he now reveal, or be allowed to reveal, any of his connections with assorted members of the security forces who are said to have assisted him in his business? If so, it would be a major breakthrough in Turkey's efforts to become a cleaner, more open sort of place.

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Italy

Dream on

Mar 29th 2001 | SAN BENEDETTO DEL TRONTO
From The Economist print edition

AP

In the palm of Berlusconi

IN THE town of San Benedetto del Tronto, halfway down the eastern coast of Italy, spring is a sleepy time of the year. Before the tourists come, pepping the population up from 50,000 to 120,000, there is not much to talk about. The local newspaper screams: “Pensioner nabbed for stealing 60 palm-trees”; palm-trees are indeed a main topic of conversation. People say there are 10,000 of them within the city’s boundaries. Bars and cinemas have palmy names. And the outgoing mayor, Paolo Perazzoli, a left-winger, is known as “Palmazzoli” after his fondness for planting the trees.

Mr Perazzoli’s fortunes may reflect the way Italy is going. With six weeks to go before a general election that the right is hotly tipped to win, the left, with Mr Perazzoli as its local parliamentary candidate, is floundering to get a message across. This area, like most of the rest of central Italy, has historically been left-leaning. Mr Perazzoli, who belongs to the post-communist Democrats of the Left, the main party in Italy’s ruling coalition, has been mayor for eight years. He has done well enough, getting re-elected in 1997 with 62% of the vote. But he is far from certain that he will win a seat in parliament.

Even in San Benedetto, with no strong local candidate and little campaigning, the right seems to be making ground. It is winning support among the *marineria*, those who depend for their livelihood on the sea, working in shipyards, on fishing boats and in the fish market that feeds a huge frozen-food industry. Most of them like the idea of Silvio Berlusconi, a self-made billionaire, running their country.

Mr Berlusconi’s Forza Italia (Let’s go, Italy) and its allies on the right also promise to spend a lot more on public works: this brings back fond memories. Until recently, San Benedetto benefited from the Cassa del Mezzogiorno, a special fund that paid for vast and often ill-conceived projects all over Italy’s poor south. San Benedetto is not in the south. But geography was no obstacle to two well-connected local Christian Democrats who delighted their constituents by getting the town included in the fund’s remit.

Who will stay loyal to the left, then? “We are doing well with professional and educated people,” says the outgoing mayor. But local campaigners remember that at the last general election, in 1996, they were forced to accept a weak candidate from the Refounded Communists, the unreformed bit of the old party, which was then part of a broad alliance on the left: he lost. This time, says Mr Perazzoli, “We’re worried that our people just won’t bother to vote.”

Indeed, the left’s main hope is to be found in the many Italians who have not decided whether to turn out. Up to 40% of voters, say some pollsters, have not yet decided which lot to plump for.

But so far the left has not wooed them well. Their campaigners seem oddly loth to praise the government’s achievements. Most people, including left-wingers, think that Francesco Rutelli, the left’s candidate for prime minister, who would be its fourth in five years if the left won, is likeable but lightweight. The only thing that unites and buoys the left is their *bête noire*, Mr Berlusconi. But this could backfire. A party needs something to be for, as well as against.

The incoming mayor, Giovanni Gaspari, another left-winger, thinks the left should be more aggressive. “Take the health service. To have a computerised scan, you have to wait six months—unless you go private. Then you can have it in two days. That’s a victory for the right. They can go around saying that private health care is the only way. Untrue. But we just haven’t put enough money into public health care—in San Benedetto and all over the country.”

Arguing for a better national health service may help the left to win some votes, thinks Mr Gaspari, but not enough. “We promise good salaries and decent lives. But people around here already have good salaries and decent lives. Workers in the frozen-food industry earn at least 30m lire [$14,000] a year, more than a town-hall manager. But they want more. Give us a dream, they say. Well, Mr Berlusconi offers that dream. I’m certain he won’t make it come true. But when the voters find out, it will be too late.”

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Too many spooks?

Mar 29th 2001
From The Economist print edition

The cold war may be over, but the spies' budgets are rocketing. They need watching

Get article background

SOMETHING extraordinary happened this month: Sir Stephen Lander, the director-general of the security service (MI5), made a public appearance. The occasion, on March 15th, was a seminar organised by the Royal United Services Institution, a defence think-tank. His characteristically coded speech had all the marks of the consummate mandarin. But it was the fact of his appearance, not the substance of his talk, that was important. "I thought it would be sensible to let the hounds see the fox," he said.

Spies like to practise their dark arts under deep cover, but this is becoming increasingly difficult. The end of the cold war has forced them to find employment in areas that have traditionally been the territory of the police, and therefore subject to public scrutiny—areas such as combating terrorism, organised crime, drugs, and money laundering. As they do so, the pressure on them to open up—and, in particular, to justify their rising budgets—is growing. But their minders in Whitehall are fighting to keep the whole business secret.

The annual bill for Britain's spies is deliberately opaque. The single intelligence vote, presented annually to Parliament, covers the Security Service (MI5), which deals with domestic issues, the Secret Intelligence Service (MI6), whose operations are principally overseas, and the government's communication headquarters at Cheltenham (GCHQ). These agencies' budgets have increased in real terms from £703m ($1.1 billion) in 1998 to £859m in 2003—which means that spending on spies is growing at an average of 4.1% a year, faster than public spending as a whole.

Total spending on spies, however, is higher than that. If all intelligence expenditure, including military intelligence and satellite surveillance, is counted, the current annual total is well over £1 billion. Some put the bill much higher. Sir Gerald Warner, former deputy head of MI6, was recently quoted as estimating the total cost of Britain's intelligence gathering at £2.5 billion. The government denies that figure, but admits that spending on intelligence is higher than spending on the diplomatic service.

The end of the Thatcher era coincided with the end of the cold war, so sharp falls in intelligence spending were expected. John Major tried to cut the spies' budgets. It was, according to one of his cabinet ministers, a humiliating failure. "We sat round a table surrounded by shadowy Sir Humphrey figures," he recalled. "We asked questions. All we got back in return was rhubarb about threats to the nation."

Shortly after Labour was elected in 1997, the chancellor of the exchequer, Gordon Brown, announced a review of intelligence spending. But, like the previous attempt to cut the spooks' spending, it got nowhere. A bland paragraph in the government's Spending Review 2000 masked the retreat. Andrew Tyrie, Conservative MP for Chichester, who claims that spending on intelligence has doubled since the end of the cold war, believes there is now a strong case for an inquiry by the National Audit Office.

The spies' success seems to lie partly in their ability to play politics. A Whitehall insider says that the agencies, which report to different ministers, are "remarkably good at feeding them sexy little nuggets". They are, for instance, said to have purloined the briefing papers prepared for the German chancellor, Helmut Kohl, before the Maastricht negotiations. Mrs Thatcher was apparently so enthralled by all this that she treated intelligence briefings as though they were enjoyable bedtime reading.

Do the agencies offer value for money? Insiders have doubts. David Bickford, a former legal adviser to the intelligence and security services, has publicly criticised the three agencies' costs as excessive and called for a merging of their operations. He said there was "triplication of management, triplication of

bureaucracy and triplication of turf battles."

One piece of spending became a public scandal. MI6's headquarters at Vauxhall Cross and MI5's at Thames House cost £300m more than they were supposed to. The overrun was concealed from Parliament for nearly seven years.

The new top-secret GCHQ surveillance centre appears to be going the same way. The transition costs of moving the agency's activities to one large surveillance-proof circular "doughnut" building at Benhall, near Cheltenham, was originally put at £20m. It now stands at £400m plus and rising fast. The total costs of the project are expected to exceed £1 billion, about a third of which will be met by a private consortium under a private finance initiative contract.

For the most part, though secrecy makes it hard to judge whether the spies offer value for money, for they are not properly held to account. The prime minister has failed for more than four years to hold a meeting of the ministerial committee which is meant to approve the agencies' budgets. The permanent secretaries' committee on the intelligence services has met only three times since 1997.

The Intelligence and Security Committee (ISC), composed of eight MPs and one member of the House of Lords, has been strongly critical of this neglect. The committee recently asked the chief secretary to the Treasury, Andrew Smith, to give evidence. His refusal, says the committee acidly in its latest report, published on March 28th, fits ill with the assurance given that Whitehall departments would give the ISC their full co-operation.

Whitehall is even more secretive about the spies' doings than are the spies. MI5 publishes its annual budget of £140m on its website. But that disclosure is deemed too sensitive for the ISC's annual report, which is censored by civil servants. The result is a gripping 14-page annex, containing all available information on the breakdown of the agencies' budgets (see table). Other tables in the annex are similarly enlightening.

Hidden costs

GCHQ running costs, £m

	1996-97 outturn	1997-98 outturn	1998-99 outturn	1999-2000 estimate	Explanation of variances of +/-10%†
Staff numbers	***	***	***	***	***
Staff salaries	***	***	***	***	
Seconded staff	-	-	-	-	
Casual/local staff	***	***	***	***	
Overtime	***	***	***	***	
Redundancy costs	***	***	***	***	***
Pension contribution	***	***	***	***	***
Accommodation etc.	***	***	***	***	***
Training and supplies	***	***	***	***	***
Total	***	***	***	***	
Grossing up for VAT recoveries	***	***	***	***	***
Gross running cost total	***	***	***	***	

Source: Intelligence and Security Committee

†1998-99 outturn to 1999-2000 estimated

The committee is hampered not just by censorship of its output, but also by the nature of its inputs. As one of its former members, Yvette Cooper, now a minister, asks, "How can you have proper oversight if the people you are overseeing are the very people who are determining the information that you get?" The committee's chairman, Tom King, is widely accepted to have done a good job in getting the committee established. He insists that his members have got their teeth into the agencies' effectiveness but admits that "the balance has to be struck so as to create an element of trust."

This lack of parliamentary accountability is almost certainly unsustainable. The home-affairs committee argued strongly in a recent report that the intelligence services should be supervised by a select committee which would report to Parliament, not to the prime minister. Mr Bickford, the intelligence services' former legal advisor, agrees that the current set-up for overseeing the spies is "completely ineffective", but he believes that the agencies would be prepared to accept parliamentary scrutiny.

Deciphering Sir Stephen's speech at the seminar a fortnight ago, it seemed as though the message is

getting through. Increased public scrutiny, he said, was a greater challenge for Britain's secret services even than the end of the cold war. Sir Stephen recognised that the spies would have to get used to more openness and more scrutiny in the future than they had known in the past. "I blanch at some of the things I refused to tell the committee early on," he confessed.

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Big in Albania

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From The Economist print edition

HOWEVER energetically Britain's politicians promote their country's (alleged) youthfulness and dynamism, other countries remain stubbornly wedded to out-dated, defunct and frankly embarrassing representations of Britishness. The Albanian version of this problem was encapsulated last week in the contrasting persons of David Beckham and Sir Norman Wisdom.

Reuters

Wisdom triumphs in Tirana

Mr Beckham, the captain of England's football team, is a model British export: socially mobile, talented, patriotic and married to Posh Spice, another worker in what Chris Smith, the culture secretary, calls the "creative industries". Mr Beckham is famous for, amongst other things, wearing a sarong, and thus exhibiting a relaxed attitude towards his masculinity. But in Tirana, the sarong was eclipsed by an icon of an older, more hierarchical Britain, the cloth cap.

Visiting Albania for a football match, Mr Beckham and his colleagues were over-shadowed by Sir Norman, an octogenarian British comedian. Sir Norman is remembered fondly by some aged Britons as a working-class fall-guy in a string of ancient British films, in which he played a plucky but hapless dogsbody oppressed by a heartless boss. To the theologians of classless, stylish, Cool Britannia, such relics are anathema; but in Albania, Sir Norman is a hero. His films—perhaps because of their entirely inoffensive content, perhaps because of their buried critique of capitalism's inequities—were among the few Albanians were permitted to enjoy by their communist leaders.

Other waning British icons continue to excite foreigners far more than the false idols of modern British art and pop. Samantha Fox, a topless model who embarked on a musical career that was, domestically, short-lived and cruelly derided, remains chic in India (she has also performed in Siberia and Bulgaria). Indians are also fond of "Yes, Minister", a comedy series about incompetent British politicians which has been translated into Hindi. But perhaps the most revealing of Britain's unlikely exports are those to her European Union allies. In an unusual New Year's Eve ritual, Germans gather to watch a short play by Freddie Frinton, a little-known British comedian. The play is, in Britain, deservedly obscure; but in Germany, its portrayal of a class-dominated, time-warped British culture touches a deep nerve. "Fawlty Towers", an epochal television comedy, whose most famous sketch involves raving Teutonophobia, has been translated into German. The supposedly sophisticated French have been seduced by Benny Hill, a British icon now repudiated at home, whose humour revolves around a squat middle-aged man being chased by scantily-clad young women.

Jokes, of course, are often funny for different reasons in different cultures. So perhaps other nations voyeuristically enjoy depictions of Britain which portray it as infantile or incompetent. But that would not account for Sir Norman's lionisation in Albania. Perhaps there is something in these embarrassing old exports that the foreigners really like. Perhaps they prefer Britannia uncool. Perhaps some Britons do, too.

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The countryside and the election

Another country

Mar 29th 2001 | LYDFORD, DEVON
From The Economist print edition

Not many people in a Devon village want an election in May

THE question of when Tony Blair ought to call a general election is not quite as urgent in Lydford as it seems to be in Westminster. Jean Crocker, a local farmer, is encircled by land infected with foot-and-mouth disease (FMD). She dreads the regular visits from government vets, and worries that her farm may be doomed. Voting is not her top priority. When pressed, Julie Searle, who runs the Lydford House Hotel, says that at the moment she would rather not hear the "empty promises" she associates with an election campaign. But Ms Searle, who has lain off most of her staff and is struggling to meet her overheads, has other things on their mind.

EPA

Smoke from burning sheep spreads over Dartmoor

Mr Blair has until April 2nd to decide whether to go to the country on May 3rd, as he had intended before FMD struck. The prime minister argued last week that, despite FMD, the countryside is "open for business". This confidence is designed to encourage tourists to return to rural attractions—and to suggest that life in FMD-afflicted areas is normal enough for a general election to be held. But the reality in Lydford, a village on the edge of Dartmoor National Park, and close to the epicentre of Britain's second-worst FMD cluster, is more complicated than Mr Blair's assurances allow.

Dartmoor's roads are open, but some locals frown on anyone using them, and walking across the moors is prohibited. In Lydford itself, things appear relatively normal—except for the disinfected straw, omnipresent warning notices and an unusual quiet. But the activities that attract visitors—walking and riding—are impossible. The medieval castle and nearby Lydford Gorge are closed, as is the church in the neighbouring (and infected) village of Brentor, which normally attracts around 3,000 visitors a year. Hoteliers and publicans are desperate for business, but other residents say frankly that visitors are unwelcome. All the subsidiary industries that depend on farming and tourism are suffering with them.

Like holidaymaking, electioneering in Lydford would be possible, but tricky. Geoffrey Cox, the prospective Conservative candidate for Torridge and West Devon, the Westminster constituency which includes Lydford, says that FMD threatens to disenfranchise the farming population. Many farmers—some of whom are candidates in the local elections—are marooned at home. Some farms are inaccessible to canvassers. John Burnett, the Liberal Democrat MP who took the constituency from the Tories with a small majority in the 1997 election, echoes these concerns.

Others differ. David Brenton, who (somewhat masochistically) is fighting the seat for Labour for the fourth time, points out that farmers can vote by post and be canvassed by telephone. In any case, Mr Brenton says wryly, farmers already know how they intend to vote. The local situation, he says, should not obstruct the nation's democratic processes.

Disenfranchisement is a relative term: many voters would probably prefer not to be visited by oleaginous candidates, provided they can still vote. Given that Lydford's pubs, roads and primary school are open, the village could probably just about manage an election. But insofar as local residents worry about its date, their concerns have more to do with taste than practicality.

Most people in Lydford are travelling as little as possible, for fear of spreading FMD. Non-essential gatherings such as school football matches have been cancelled as a precaution. Parish-council meetings

have been postponed. Ian Sykes, the local rector, says he is talking to anxious farmers for several hours a night. Pauline Geering, a local horse-trainer, says that she is surprised people haven't killed themselves, and that Labour ministers should "get their wellies on" rather than worrying about getting back into office. Mr Cox says that soliciting votes now would be like "selling an insurance policy to a bereaved mother".

Residents would also like to think that the government is as preoccupied with the crisis as they are. There are whispers about FMD being brought to the area by farmers covertly importing sheep to boost their subsidies, and about others who would welcome the disease on their land for the compensation it brings. But most of the anger is reserved for the government: farmers and others complain that ministers' response has been sluggish and confused. Labour was already unpopular in Lydford before the FMD outbreak, because of MPs' efforts to ban foxhunting, and an impressionistic conviction that the government is hostile to the rural way of life. So some of the local feeling about a putative election may derive from the knowledge that Labour is likely to win it.

In electoral terms, the government's unpopularity in places like Lydford is irrelevant: Labour is the third party in rural Devon, and could not hope to win seats such as this one whenever the election is held. Mr Blair wants to be able to argue that FMD is under control. If he can, he will probably decide that the danger of a wider economic downturn later in the year outweighs the current hardship in places such as Lydford, and go to the polls in May.

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Bagehot

The strange persistence of politics

Mar 29th 2001
From The Economist print edition

WHAT know they of politics, who only politics know? In the little bit of London that its denizens have taken to calling the "Westminster village", there was only one question worth asking this week. Would Tony Blair call a general election for May or not? But, while waiting for the answer, there were motions to be gone through as well. So this was a week in which the Westminster village also pretended to think some Big Thoughts. Since this job does not come altogether naturally to all of the village's permanent residents, it is just as well that a foreign visitor was on hand to stimulate the necessary cogitation.

Robert Putnam is an American political scientist who has made his name through a book, "Bowling Alone", in which he reported that when Americans go tenpin-bowling they no longer do so in leagues but on their own. Vanishing bowling leagues, Mr Putnam says, are a metaphor for disappearing togetherness, as measured by a decline in all sorts of communal behaviour, from going on picnics, to belonging to trade unions, to joining political parties, to voting in elections. Being from Harvard University, Mr Putnam has not just noticed this phenomenon but named and (massively) quantified it. Most modern societies, he says, and especially America, are squandering their stock of "social capital". This is a danger, he says, because all of the measurements show that communities with bags of social capital tend to have better schools, less crime, fewer teenage pregnancies—you name it: they are better places in every way.

Mr Putnam made quite a splash in London. He addressed a seminar in Downing Street and a conference ("Is there a crisis of democracy?") in Pall Mall. He wrote in the newspapers and was written about by them. His message of togetherness is being taken especially seriously by the political parties.

Its appeal to New Labour requires no explanation: like Mr Blair's "third way", the very phrase "social capital" hints at the pleasingly communal but stirs in an invigorating dash of hard economics. New Labour is wholeheartedly in favour of "society" (whether "civil" or "civic"), community, communitarianism, empowerment, stakeholding, joined-up government and what have you. But the Conservatives, too, are unusually receptive. Ever since voters rejected them in 1997, they have been bending every sinew to repudiate Margaret Thatcher's infamous assertion (wrenched out of context but stuck like a bone in the national gullet) that "There is no such thing as society." Of course there is such a thing, Conservatives now say; and they have always cared more than most parties about it. Are not Conservatives the very people who believe in conserving social institutions rather than knocking them down, the promoters of Burke's "little platoons" and proponents of Disraeli's "one nation"? Why, under William Hague, the party has gone so far as to create a think-tank (paid for by Sir Stanley Kalms, a high-street electronics retailer) in Conservative Central Office called "Renewing One Nation". More even than this: taking his cue from the "compassionate conservatism" of George Bush, Mr Hague promises if he becomes prime minister to create an Office of Civil Society at the heart of government, which will be staffed by "charities, faith communities and family groups" and report to a cabinet minister. Mr Blair is no slouch either where "faith communities" (whatever happened to "religions"?) are concerned. This week he was congratulating the Christian Social Movement for its good works in schools and communities.

Well, Bagehot, too, gets a warm glow from togetherness. Civil society and social capital sound like splendid and useful things. As to whether they are really in decline, in a way that is susceptible to measurement, he defers to the scholarship of Mr Putnam. But one thing does seem plain. If it is true that civil society is in decline, governments are not best placed to provide the remedy for its decline. They are, in part, the cause of it. Put simply, governments run states; and even well-run states have a habit of crowding civil society out.

Mr Putnam calls it "simple-minded" to see the state as the intrinsic enemy of civil society. As he points out, states do many things that can make social bonds stronger. For example, they can provide schools, in which, among other things, people can be taught their responsibilities. But he also enthuses about a proposal in America to assess all government policies for their potentially damaging impact on "social capital", just as they are assessed now for any damage they might inflict on the physical environment. The mere existence of this zany proposal is an acknowledgement that the usual propensity of governments is to weaken civil society rather than to strengthen it. This is either because they provide

things (education, help for granny) that the little platoons might otherwise have provided by themselves or because they prohibit activities (foxhunting) that may contribute to the sum of social capital but repel a majority of voters. When a bit of civil society dares to stand in government's way, it is surprising how quickly it is renamed one of the "forces of conservatism". Apart from less government, the only sort of government that helps civil society is very bad government indeed: Pakistan's has unintentionally encouraged lots of little civic groups to band against it.

For those who share Mr Putnam's anxieties, here is a consoling parting thought. Having listened to its visitor, the Westminster village will return to its obsession with the date of the election. Everyone knows that, whenever it comes, the probable outcome will be the re-election of the present government. Most people also know that their own vote will count for little: British elections are decided by a handful of floating voters in a handful of marginal constituencies. Despite this, seven out of ten eligible voters will traipse to the polling stations to do their civic duty. There is social capital left in the old system, after all; perhaps more than it deserves.

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The worst car factory in the world

Mar 29th 2001 | HALEWOOD, MERSEYSIDE
From The Economist print edition

IN THE 1970s, Ford's factory at Halewood on Merseyside epitomised the ills of British manufacturing. The Ford Escorts it churned out were dodgy, its workers were bolshie and the place was a battleground of class warfare. Some said it was the worst car factory in the world.

PA

Halewood's new attitude

Halewood's reputation was so bad that the Escort's successors went elsewhere, and, some years ago, Ford was planning to close it. Around £40m of government aid helped persuade the company to keep Halewood open, transfer it to Jaguar, a Ford subsidiary, and transform it into a modern factory making luxury models.

In May, Halewood starts producing the new "baby" Jaguar, the X-400, the model on which that company's hopes all ride. It is the first small car Jaguar has made in modern times, and Ford is depending on it to double Jaguar's sales to around 200,000 a year and earn the company's first decent profit since Ford bought it in 1989. The scale of change at the factory suggests that this might just be possible.

Old Halewood's aisles were narrow and crowded and visitors tripped over piles of carelessly stacked widgets and bits of rusty metal. You could eat your lunch off New Halewood's polished floor if you didn't want to use the smart refreshment areas and meeting rooms.

In the old days managers used to hide in their offices poring over printouts and emerge on the shopfloor only to shout at workers to get them to do their job better and faster, or even to do it at all, since work tended to interfere with smoking, sleeping, betting or discussing football. It was not quite as bad as Fiat in Turin, where they actually had brothels in its notorious Mirafiori plant—but this was England, not Italy.

Today everything is open. The walls of the refreshment and meeting rooms are festooned with charts detailing progress on everything from quality to production volumes. Line workers, grouped in small teams, begin the day with briefing meetings and work according to a meticulous manual of how to do every job not just with minimum effort (as they did in the old days) but also maximum efficiency.

But the biggest difference is the people. Before it tackled Halewood, Ford had sent hit teams to transform Jaguar's main plants in the Midlands, modernising both the facilities and the mindset of the workers. Ford's manufacturing director described one of them as worse than what he had seen behind the Iron Curtain. But when it came to changing hearts and minds on Merseyside Jaguar's bosses decided they needed a little extra help. So they brought in Senn-Delaney, an American firm of "change management" consultants.

David Hudson, the factory's boss, drew up what he called the "Halewood Charter", encapsulating the idea that the management should treat the workers with some respect and workers should co-operate with management to make good cars and profits. Each employee had to sign an individual contract detailing the new philosophy and way of working. Some 600 out of 3,000 Ford workers refused to go along with this. They left, making the job of transforming the company easier. Jaguar is now recruiting 900 local, mainly young, employees, who stand out among the grizzled veterans who dominate today's lines.

So what's it like for the workers who have lived through the revolution? Jimmy Rooney, a worker with 27 years on the Escort lines, says, "It's given me an appetite to come to work here each day." Ten other workers say more or less the same as him. Coming from Scouseland, the home of England's awkward squad, that is quite a transformation.

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Housing market

How cheap is your mortgage?

Mar 29th 2001
From The Economist print edition

When inflation is low, cheap mortgages do not mean cheap housing

IN HIS budget in March, Gordon Brown, the chancellor of the exchequer, argued that economic stability had delivered lower borrowing costs to purchase a house. On average, he said, mortgage payments were £1,200 a year lower than under the Conservative government. Banks and building societies are also keen to point out that housing has seldom been more affordable. According to the Council of Mortgage Lenders, the expense of the first-year mortgage payments paid by first-time buyers has fallen sharply in relation to their income since 1990. Then 26% of income was swallowed up by mortgage interest payments. The figure has now fallen to just 16%.

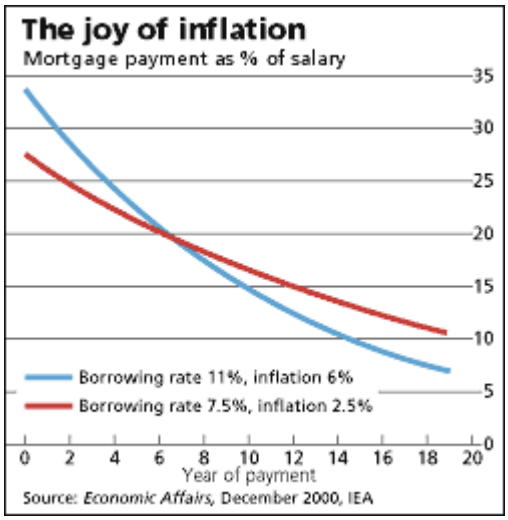
If housing were as cheap as they say, you would expect the market to be booming. Instead, it has been struggling. House-price inflation fell from a peak of 16% at the start of last year to 1% in January, according to the Halifax price index. The number of property deals in the second half of last year was 10% down on the first half.

To cap it all, a price war has broken out between two of the principal lenders, the Nationwide Building Society and the Halifax. The Nationwide has lowered its main variable-lending rate from 7.09% to 6.49% for more than half a million borrowers. The Halifax has introduced a new variable base rate of 6.75% for new customers, although existing borrowers at the previous standard rate of 7.5% can apply.

Price wars happen when business is tough, not when the going is easy. Indeed, the difficulties of the housing market over recent months should come as no surprise given recent tax changes that have hit homebuyers. Last year the government abolished mortgage-interest tax relief. This removed some £2 billion of annual subsidy to homeowners. In addition, the government raised stamp duty again on property purchases worth more than £250,000.

More important, lower cash borrowing costs do not necessarily cut the real expense of paying off a mortgage at all. The bulk of the reduction in borrowing costs since the early 1990s reflects the fall in inflation. This simply shifts the profile of payments over the life of the mortgage.

This emerges from a calculation by Philip Booth and Geoffrey Wood, economists at City University. They work out the costs of paying off a 20-year repayment mortgage of £75,000 for a couple with a combined salary of £25,000, which will rise by 2.5% a year in real terms. If inflation is high, at 6% a year, the couple pays more initially but gains in the later years (see chart). But if inflation is low, at 2.5% a year, they pay less at first but lose out in the later years of the mortgage. High inflation erodes the real burden of the debt quickly; low inflation erodes it slowly. But the real cost of paying off the loan is the same in both cases.



In addition to inflation, borrowing costs also reflect real interest rates and the charges made by mortgage lenders to cover their expenses and make a profit. Real interest rates have certainly fallen for long-term borrowers in the last few years. But most mortgage loans are either variable or fixed for quite short periods. And short-term real interest rates have not shown any clear trend since 1993, according to Mr Booth.

That leaves the charges made by mortgage lenders as a source for a real reduction in borrowing costs. Here there has been an undeniable improvement. A summary measure of those charges is the interest-rate margin, the gap between average lending and deposit rates. In the 1990s, this spread was generally

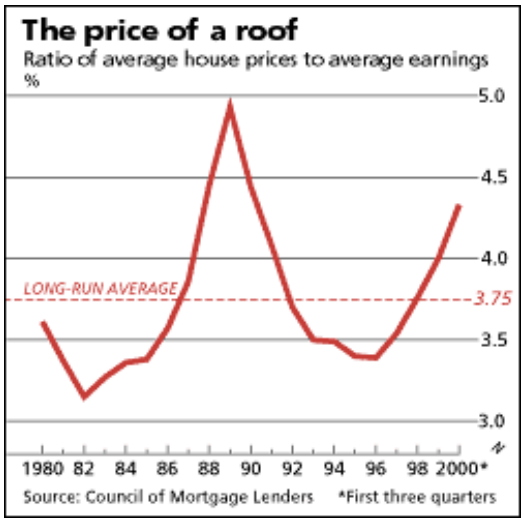
around two percentage points. More recently, however, it has fallen to around 1.3 percentage points.

First-time buyers have benefited most from the intensifying competition among lenders. They are in short supply. Just as the baby boom of the late 1950s and 1960s pushed up the number of first-time buyers in the 1980s, so the baby bust of the 1970s has depressed the number of first-time purchasers. Mortgage lenders have been falling over backwards to win their business with special deals, designed to bring down still further the initial cost of borrowing.

This has opened up a gulf between borrowing rates for new favoured customers and existing ones who have been left on higher rates. The banks have been keen to protect their big “back book” from margin erosion. However, the “back book” has been fighting back by taking out remortgages, which have risen remarkably over the past years to over a third of all new advances in January and February. This is what has prompted the recent “mortgage wars”.

Greater competition should spur further cuts in charges. There remains plenty of scope for the mortgage industry to raise its productivity. The British mortgage market is considerably less efficient than the American one. British lenders employ more people to originate new mortgages and the cost of administering existing loans is much higher.

However welcome the prospect of lower charges, this does not necessarily mean that it is a good time to jump into the housing market. On another measure of affordability—the ratio of house prices to earnings—the market looks expensive (see chart). This is especially so in London, where would-be first-time buyers find they cannot climb onto the first rung of the housing ladder. Whatever estate agents and mortgage lenders may claim, houses are no bargain.



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Scottish politics

The dog and the lamp-post

Mar 29th 2001 | EDINBURGH
From The Economist print edition

BEFORE Scotland's Parliament was set up in 1999, everyone north of the border insisted that their politics were going to be different. Unlike murky Westminster, Holyrood would be open, transparent, and accessible. Journalists would have nothing as corrupt as Westminster's lobby system. But, according to a book published on March 28th*, relations between politicians and journalists at Holyrood have turned out remarkably similar to those at Westminster.

According to Philip Schlesinger, the book's author, and director of Stirling University's media research unit, the Scottish hackpack has traditionally prided itself on being less craven to politicians and being more immune to spin (being told how to write their stories to show politicians in a favourable light) than their Westminster counterparts. So they ought to have warmed to the style of Donald Dewar, first minister from 1999-2000, who famously hated spin.

But Mr Schlesinger's interviews with journalists have revealed that they like a bit of spin. It gives, they say, an insight into the political thinking behind policy announcements. And the associated art of news management ensures that there is a steady stream of stories to keep them occupied. The absence of both partly accounts, Mr Schlesinger thinks, for the rough ride the Parliament has had from the media.

But ministers, meanwhile, have been trying to ape Westminster's ways. As part of the preparation for devolution, media training sessions were held for bureaucrats and incoming ministers. These, Mr Schlesinger has discovered, were to school people in evasion rather than truth and honesty. The training manuals advise that the "key message" should be conveyed in answers to the first and last questions. If this does not work, people are advised to try "re-setting the agenda" by responses such as: "That's an interesting question, but our view is [key message]." The only mention of truth he found was in advice to be "as reassuring as is truthfully possible."

Where Holyrood is different to Westminster is that reporters are much closer to their quarry: they eat in the same cafeterias, can wander in and out of their parliamentary offices and bump into each other in and around the Parliament. It means that gossip, news of infighting and stories of skullduggery circulate faster. This delights editors, who like such stories better than announcements about drains and bedpans.

Perhaps the only surprise in all this is that anybody thought it would be different. Editors have been raking the muck ever since newspapers were invented. Politicians have tried to be portrayed as positively as possible since the days of the pharaohs. And the journalists are merely following the dictum of the American sage H. L. Mencken, who laid down that the proper relationship of the journalist to the politician is that of the dog to the lamppost.

*Open Scotland?, by Philip Schlesinger and others, Polygon at Edinburgh, £15.99

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Making steel

Cutting edge

Mar 29th 2001 | SHEFFIELD
From The Economist print edition

Boeing leaves Seattle and moves to Sheffield—well, sort of

THE “Made in Sheffield” mark was once so famous that, as local legend has it, East-Asian steel firms trying to get into the cutlery trade used to stamp it on their own knives and forks. But those cheap foreign producers eventually edged out the British firms. Most of Sheffield’s blast furnaces went cold in the 1980s, and the famous mark is not so famous now.

Allen helped bring in Boeing

Employment fell and poverty spread. Sheffield, and the surrounding areas of South Yorkshire, were hit harder than anywhere in Britain by the demise of traditional metal-bashing. Now, however, the city’s newspapers are trumpeting the claim that Sheffield is back on the world manufacturing map.

Last week, Insight Enterprises, an American computer retailer, said it was going to spend £84m building its European headquarters in the city. It is promising to bring about 1,700 jobs, a third of them in software design. But a much smaller project is generating much more excitement—the arrival of Boeing, an American aircraft maker.

Boeing, which last week announced that it was moving its headquarters from Seattle to an unknown destination, is spending £3m in co-operating with Sheffield University to set up a £15m research centre employing only 100 people looking into new metal-cutting technologies using materials such as titanium. Such a small sum does not sound much to get excited about. But Yorkshire Forward, the regional development agency, is very excited indeed. It has designated the site where the Boeing centre will go, a reclaimed slagheap half-way between Sheffield and Rotherham, as an advanced manufacturing park. In five years’ time, it boasts, Boeing and the other companies it hopes to lure to this site will have created 7,000 jobs.

Although the jobs forecast may turn out to be optimistic, there are indeed signs of new life in manufacturing in the area. British Aerospace Systems and Rolls Royce are expected to follow Boeing to Sheffield shortly. The key to all three companies’ interest in Sheffield is the university.

Tales of the collapse of Sheffield’s metal-bashing industry have been somewhat exaggerated. There is still a lot of it about. Although it employs only a sixth as many people as it did 25 years ago, it produces only 10% less than it did in 1975.

And, alongside the manufacturing base, the local university has kept up its metals-research capability. Rolls Royce, for example, has designated three teams at the university as “centres of excellence” researching, for instance, vibration clamping, and has signed five-year contracts with them.

The credit for spotting that this co-operation could have big potential belongs not to Yorkshire Forward, however, but to a Sheffield businessman and a professor. Two years ago, Adrian Allen, group sales director of Technicut, which makes precision-cutting machine tools, decided to try to sell some machines to Boeing. He took Keith Ridgeway, Sheffield University’s head of design and manufacturing, to Seattle with him.

They failed to make a sale; but while researching his pitch, Mr Allen noticed Boeing’s press notices explaining that the company was looking to collaborate in research with suppliers to cut costs and improve quality. Mr

Allen saw an opportunity. “Selling an existing product to Boeing is impossible; you have to get involved with their manufacturing process,” he says.

Mr Allen also noticed that the government was offering subsidies to set up regional industrial-innovation centres. He and Mr Ridgeway cooked up the idea to put Boeing and one of these centres together in Sheffield. Mr Allen says he did not get very far with his idea until he invented an attention-grabbing acronym for it: SYCOE or South Yorkshire centre of excellence. “People said to me “Are you mad?”—but they listened.”

Boeing’s importance to Britain was part of Mr Allen’s pitch. It is one of Britain’s biggest manufacturing customers: in 1999, it bought $2.9 billion worth of components—38% of Boeing’s total component bill—from Britain. That helped Mr Allen convince the Department of Trade and Industry, which came on board along with Yorkshire Forward and Sheffield’s various development agencies. Boeing bought the idea because of the quality of research going on at the university.

If things go well, the research centre will be just the beginning of the benefits Boeing will bring. The company wants to outsource more production, to concentrate on areas where it can add most value. Jimmy Williams, Boeing’s head of manufacturing-process improvement, says, “We want the technology to transfer to supplier firms. As it transfers, those suppliers will become very competitive.” In other words, as Boeing gets better products out of Sheffield, so manufacturers will be better-placed to sell their products to firms such as Lockheed and Airbus Industries. Which is why 300 people from the British aerospace industry attended a recent seminar at Sheffield University about the research centre.

There is a pleasing symmetry in this story, for Sheffield’s previous fortune was born out of research. In 1912, Harry Brearley, a former student working in a laboratory in Sheffield, discovered how to make stainless steel. Production began three years later. The rest is history.

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The Arabs' chat-show

Mar 29th 2001 | AMMAN
From The Economist print edition

Neither Palestinians nor Iraqis can draw comfort from the Arab summit

Reuters

ARAB summit meetings are notoriously long on talk and short on substance. At this week's gathering in Jordan, the elaborate pageantry of brotherhood again failed to disguise the gaps, not just between words and deeds, or even between nations, but between leaders and public opinion.

The two main questions discussed in Amman, the six-month Palestinian *intifada* and the decade-long punishment of Iraq, are burning issues for ordinary Arabs. What they want is direct and generous support for the Palestinians, and the complete lifting of sanctions against Iraq. What the 22 delegations gave them was a rancorous search for lowest common denominators, ending with a pledge to release funds to the Palestinians that had already been promised, and a muted call for the relief of Iraq.

The results were greeted with cynicism. The discussion on Palestine was undercut in New York where the United States vetoed a Security Council resolution calling for UN observers to protect civilians. And the renewed promises of financial support are tempered by the fact that out of the $1 billion pledged by the same leaders last October, less than 5% has actually been delivered. Some $300m has left Arab treasuries but languishes in a bank account, largely because of worries about the Palestinian Authority's corruption. However, the summit did promise to speed payments to the authority to cover the salaries of its 110,000 employees.

Aside from squarely blaming Israel for the current mess, reaffirming commitment to Palestinian rights, and threatening Israel with a renewed Arab boycott, the leaders had little other comfort to offer their embattled brethren. One exception was Syria's Bashar Assad. He backed up a tough speech, in which he vilified Ariel Sharon, Israel's prime minister, as a "butcher", by announcing the renewal of relations with Yasser Arafat after a ten-year Syrian-Palestinian freeze. He also took a swipe at Egypt and Jordan—the two countries to have signed treaties with Israel—by solemnly swearing he would never leave the Palestinians in the lurch by making a separate peace.

Peace, in fact, has seldom looked more remote. As Arab leaders praised the *intifada*, Palestinians continued it, violently, across the Jordan river. On the eve of the meeting, the killing of the ten-month-old daughter of Israeli settlers in Hebron, provoked Israeli fury. Tensions mounted further as three bomb explosions shook Israel. Islamic militants claimed responsibility, but Mr Sharon squarely blamed Mr Arafat and, as the conference ended, sent helicopter gunships to rocket his bodyguard's headquarters and training camps in Ramallah and Gaza.

If the summit brought little joy to the Palestinians, it was a bigger disappointment to the Iraqis. The call to lift sanctions appeared to be less a challenge to the UN Security Council than a nod and a wink to the Bush administration's slowly percolating policy shift towards some kind of "smart" sanctions. It was no coincidence that details of the way that America is now thinking began to be revealed on the eve of the summit.

The gist of the policy is to free normal trade with Iraq, while clamping down on arms—a well-trodden idea that even one Iraqi minister in Amman conceded was reasonable. But, as envisaged, the policy would be little more than a looser form of the current oil-for-food arrangement, with all Iraq's oil revenues still kept under UN control. The theory, however, would be reversed: instead of only humanitarian goods being let into Iraq, everything would be free to go in except for prohibited items.

To prevent Saddam Hussein getting his hands on cash that might be spent on arms, America has set out to persuade the neighbours to cut down on smuggling, and start border inspections. The persuasion includes the promise of generous compensation for countries that Iraq has been assiduously wooing with

gifts of cheap oil and thoughts of future, lucrative contracts. The not-so-subtle American message is that the neighbours might be better off throwing in their lot with new-formula sanctions than sticking with Mr Hussein.

The Iraqi delegation, led by Izzat Ibrahim, the vice-chairman of the Revolutionary Command Council, had other reasons to feel discomfited. Its demands that the Arabs should unilaterally abrogate sanctions, and stop letting American forces attack Iraq from bases in their territory, were ignored. Though Kuwait and Saudi Arabia, America's staunchest allies on Iraqi policy, appeared isolated at times, it was Iraq, not them, that rejected compromise wording patched together by summit mediators.

As the meeting wound up, the Arab leaders could at least congratulate themselves on putting on their best show of unity since the Gulf war. Officials also tried to put a favourable spin on a call made by Egypt's president, Hosni Mubarak, for greater efforts at economic co-operation. Suggesting that the timetable for a free-trade zone, which was agreed on in 1997, should be speeded up, he invited his colleagues to meet again in Cairo for a special economic summit.

But the Arabs have been talking of forming a common market since the 1950s. Even the idea of boycotting Israel, as one form of economic co-operation, may be a non-starter. As if to emphasise the point, the briefcases given as part of a press kit to journalists at the summit were manufactured in an industrial zone where 13,000 Jordanian workers piece Israeli components into goods that are sold free of duty in the United States.

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Iran

Drugs and decay

Mar 29th 2001 | TEHRAN
From The Economist print edition

TABOO subjects, Muhammad Khatami has insisted, should be talked about. Before he was elected president in 1997, most Iranians were unaware of their high level of drug addiction. But now, thanks to press reports and unexpectedly lively debate, everyone knows that the country has about 2m opium and heroin addicts, and that the effects are tugging at the social fabric.

Reuters

Camels under arrest for drug-carrying across the frontier

The discussion has spurred efforts to stop the flow of Afghanistan's opium, morphine and heroin into Iran, and thence to Turkey and Western Europe. The security forces have stationed 30,000 men on the long border, and fortified lengths of it with trenches and concrete barriers. During a violent period at the end of last year, this border force, which has lost 3,000 men in two decades of fighting the smugglers, was ambushing well-armed gangs almost daily.

Their efforts have brought some eye-catching successes. Iran claims 85% of world-wide opium seizures last year, and 45% of morphine and heroin seizures. In February the police raided "Cannibal Island", a squalid corner of Tehran and its biggest drugs supermarket. They arrested about 500 people, before bulldozers razed the area. "It's difficult to see what more they can do," said an admiring Keith Hellawell, the head of Britain's anti-drugs campaign, when he visited Iran earlier this year. "It's a war."

To give itself a better chance, Iran has modified its foreign policy. Rather than persist with its refusal to talk to the Taliban, Iran is now helping the Afghan government to transform its poppy fields into prairies of wheat. The UN says that the Taliban may have cut poppy cultivation by 70%. Indeed, in the past three months, the price in Tehran of a mesqal of opium, the five-gram unit of choice, has soared from $2.50 to $9.

But talk of victory is premature. However courageous and efficient they are, Iran's border forces and police probably intercept no more than 30% of the drugs that enter the country. Junkies and aid workers alike suspect that the rise in opium prices has less to do with crop substitution and record hauls than it has to do with stockpiling. Moreover, the price of heroin, which is more addictive and more lethal than opium, has stayed absurdly cheap: one (highly adulterated) hit in Tehran costs 50 cents.

Some of Mr Khatami's conservative opponents claim that "moral decay", fostered by his reformist allies, has made the epidemic worse. But the solution they propose, harsher sentencing, does not work. Over the past ten years, Iran has executed around 5,000 pushers. More than 90,000 people—some 60% of the prison population—are in jail on drugs offences. Yet the number of addicts continues to rise.

Why are Iranians so susceptible to drugs? In the seedier parts of south Tehran, where the junkies have colonised parks and other open spaces, there is plenty of evidence of decay. But it is not so much the moral sort, as social and economic. The main reason, perhaps, is that Iranians are suffering from a profound sense of powerlessness.

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Deadly arson in a Kenyan school

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From The Economist print edition

STANDING before the burnt-out shell of a high-school dormitory, Daniel arap Moi promised “a deep investigation” into the fire that claimed the lives of at least 60 Kenyan schoolboys this week. The police believed that the cause of the fire at Kyanguli Mixed School in Machakos, near Nairobi, was arson. They said that recent school-leavers, whose final examination results had been cancelled because of alleged cheating, were the prime suspects.

A petrol-fuelled fireball engulfed the middle of the small concrete dormitory shortly after midnight on March 26th. Most of the boys on one side escaped through a back door. But, on the other side, the door was locked and the windows barred. Three school watchmen have been arrested on suspicion of supplying the petrol.

Should Mr Moi’s investigators go even deeper, they would find an education system that creates enormous pressure to succeed and precious little opportunity to do so. Kyanguli was one of 100 schools to have most of its Kenya Certificate of Secondary Education (KCSE) results rubbed out in February: the ruling affected 2,880 children in all. There were widespread allegations of exam papers up for sale and of examiners teaching revision classes.With a KCSE failure rate of 70%, most applicants cannot hope to succeed. And for the 30,000 who do, there are only 9,000 places available at the state universities. Those who make it can hope for a civil-service job; those who fail must take their chance in a country with huge unemployment.

A glance at teacher-training standards may explain a lot. Last year, 3,000 teachers failed their primary-teacher examination. This prompted the exam board to order a remarking, after which all but 300 passed. Incompetent teachers and a system that gives no guarantee of reward for hard work are an explosive combination.

The unruliness of Kenya’s cut-price, out-of-town boarding schools is notorious: 300 schoolboys were recently apprehended on a sortie to rape the girls of their sister-school. In 1998, 25 schoolgirls died in a dormitory fire near Mombasa, the cause of which is still unknown.

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South Africa

Wolves in teachers' hats

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From The Economist print edition

A SOCIAL worker, arriving at a South African school, found that the students had left because two teachers were fighting. One of them had wanted to date a girl in standard six—meaning that she would be about 13. The other teacher told him this was wrong, and a fight erupted. The social worker complained to a third teacher, who said: "The department is not paying us enough, so this is a fringe benefit. But standard six is too young. Standard nine and ten is where we play."

For girls, South African schools can be terrifying. A report released this week by Human Rights Watch (HRW), a pressure-group based in New York, says that sexual abuse by both teachers and other students is widespread. It found schools where male teachers routinely made suggestive remarks about their female students. This verbal, and physical, harassment sometimes led to rape. In one case, a girl of 12 was raped by a teacher in an empty classroom, and paid one rand (12 cents) for her silence.

In poor areas, even pitiful sums of money can seem tempting. Some teachers take advantage of poor students by swapping small gifts for sex. Others promise better marks. A social worker in KwaZulu-Natal commented: "Some parents don't object to affairs with teachers. They reason that at least he's working and has money."

An even greater threat to a schoolgirl's safety, according to HRW, "is likely to be seated next to her in class". A 15-year-old girl complained that the boys at her school in a slum district outside Cape Town groped "most girls, most days". Girls deemed to be too assertive were often targets.

Among teenage boys, rapists appear to face little social stigma. On the contrary, those who rape are typically among the most popular and socially confident: 11% of 15-year-old boys said that "jack-rolling" (gang rape) was "cool". Schoolboy rapists tend to work in groups. Of the girls interviewed by HRW who had been assaulted by classmates, none reported fewer than two assailants.

School rules are theoretically strict. Teachers are forbidden to have sex with their students; rape and assault are obviously illegal. But administrators too often fail to take sexual abuse seriously. Girls who report it are met with disbelief, and often ostracised. Principals try to hush up crimes to avoid sullying the school's reputation. Victims' families are urged to accept "seduction damages" from the perpetrators' families. Such payments typically cover little more than the bus fare to hospital, and the person who brokers the deal, whether the principal or local policeman, may take a cut.

Teachers who repeatedly abuse their students rarely lose their jobs, and are even more rarely jailed. Boys who assault female classmates usually suffer no more than a few days' suspension. The atmosphere in some schools is so hostile that girls find it hard to study. This may be one reason why South African girls score worse than boys in exams.

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MIDDLE EAST & AFRICA

Kenya

Clearing the deck, and the forest

Mar 29th 2001 | NAIROBI
From The Economist print edition

The Kenyan regime's destructive policies

"IN AFRICA we gonna get it on, cause we don't get along," said Muhammad Ali, off to a rumble in the jungle with George Foreman back in 1974. Daniel arap Moi and Richard Leakey have been boxing for years. But the president won the latest round this week when he sacked his old adversary from his post as head of the civil service, together with most of his team. Mr Leakey's brief for the past 20 months has been to streamline the service and restructure the economy. Unlike Mr Moi's usual band of sycophants, Mr Leakey had a reputation for integrity. Thus his appointment was a bid by the president to get the IMF and the World Bank back to Kenya after three years away.

It worked well at first. Mr Leakey sacked a string of corrupt officials. The IMF and the World Bank promised loans of $250m. Mr Moi said he was pleased with the man he had called an antichrist and an atheist colonialist during two election battles. But late last year the cracks appeared. Mr Leakey had managed to axe 25,000 dead-wood public servants, beneficiaries of the ruling Kenya African National Union's patronage. But his next 6,000 lay-offs were frozen by the courts.

Mr Leakey's retrenchment programme remains frozen. So too, and not coincidentally, are the IMF and World Bank loans. The second tranche of lending is almost five months overdue. Mr Moi's defiant sacking of the Leakey team could be decisive. On the other hand, there will be reluctance to desert Kenya less than two years from an election which, if the constitution means anything, will end the president's 24-year-old regime.

In any event, Mr Leakey's time was already up. The pretence that he would be allowed to reform a system carefully designed to keep Mr Moi's hands on the reins of power, and on the purse-strings, was gone before he was dismissed. But Leakey-watchers had expected him to engineer a more glorious exit. Instead, he leaves somewhat tainted. For instance, it was recently revealed that he had warned the attorney-general off investigating the seizure of a privately-owned flower firm by Kenyan officials of a Dutch bank, on grounds of vaguely phrased considerations of "national interest".

Mr Leakey's last act as head of the Kenya Wildlife Service in 1998 was to prevent the government clearing swathes of Mount Kenya's forests. He could not do much about this during his stint inside the system. But now he is a free man again, he may return to the issue. This would be timely: another 10% of Kenya's remaining forests, or 67,000 hectares (165,000 acres), is about to be parcelled out.

Mr Moi's environment minister says that since the land is already occupied by squatters, the aim is to redefine the borders and prevent further encroachment. But aerial photographs show that over half the earmarked forest is unoccupied, much of it immature plantation paid for with World Bank loans. Protesters accuse Mr Moi of giving away national assets to buy the votes his party will need if his personal empire is to survive the succession.

He has done it before. According to environmental sources, he handed out 700 title deeds to forest land two weeks before the 1997 election. But the current proposal would be the single biggest excision in Kenya's history. After three years of drought, it could be environmental suicide.

Mostly semi-arid, arid or desert, the country depends for its water on scattered catchments in highland areas. Forests regulate the water supply, sponging it up when it rains and releasing it when it is dry. Removing them causes extremes of flooding and drought. Already the once-perennial Njoro river, flowing from the Mau forest into Lake Nakuru—where many of the world's flamingos live—is dry for seven months of the year. Illegal logging in the Mau is the cause, and now 15% of it is for the chop.

A little-known group in Mr Moi's hometown of Eldoret has won a temporary injunction. Though this has not deterred the government's surveyors, a much bigger legal challenge being launched early next week

may have more success. Over a dozen environmental groups are to unite with Kenya's churches to challenge the decree as a contravention of a recent environmental law, and as a denial of people's right to water.

Legal experts claim that their case is so strong that it will be difficult for even Mr Moi's most grateful judges to deny. The president may find that dealing with Kenya's newly organised "civil society" is trickier than sacking an antagonistic civil servant.

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Economist.com BUSINESS

Bridging Europe's skills gap

Mar 29th 2001 | PARIS AND ROME
From The Economist print edition

European companies have begun using imaginative strategies to attract skilled workers. But restrictions on immigration mean that finding new employees is a big challenge

WHEN a fast-growing French software firm needed 250 new engineers recently, it eschewed all the usual hiring options. Instead, it booked a trendy nightclub and threw a party, hoping that word of mouth would encourage young talent to come forward. Another company, located in the wet north-eastern corner of France, decided that it could lure the skilled workers it needed away from sun-drenched Italy and beyond only by stressing that its excellent indoor sports facilities would be a way of keeping out of the rain.

Such are the lengths to which European companies are going to attract good new staff. All over the continent, there are shortages of qualified workers. Romano Prodi, president of the European Commission, identified a growing skills gap as a priority facing the European Council when it met in Stockholm on March 23rd. The EU, he argued, urgently needs to ease restrictions on labour mobility, particularly in the technology sector, which faces a shortage of up to 1.7m qualified workers by 2003. In the event, ministers chose largely to ignore Mr Prodi's words of warning.

Mr Prodi is far from being the only worried observer of Europe's labour market. Just before the summit, TMP Worldwide, a recruitment agency, surveyed 350 European managers. Almost half of them said that the skills shortage was having severe adverse effects on their business. Four-fifths thought that their problems would worsen over the next year, and that red tape was making it too difficult to hire foreign workers. A leading group of industrialists also called on Europe's ministers to help deal with skills shortages. Judging by the efforts that companies are making to solve the problem on their own, the shortage is more severe than even the European Commission thinks.

The issues over immigrant labour are complex. In the past, most immigrants were temporary workers who entered countries such as France or Spain to do low-paid seasonal work in agriculture. This form of legal migration continues, albeit in gentle decline. But there is a new category: skilled, well-paid workers who fill gaps that locals cannot.

Most obviously, Europe has too few qualified computer engineers, which has sent wages spiralling in that business and caused governments to intervene. Germany, for example, attracted much criticism last August when it announced a special immigration programme for 30,000 computer engineers from India. But that stirred strong complaints from trade unions and became a political issue after opponents branded it discriminatory. As a result, the scheme has been scaled back; by the end of January, fewer than 5,000 workers had signed on. Most have come from Eastern Europe, not from India.

Unglamorous industries such as construction and metalworking also face growing staff shortages. In Denmark, for example, around 9,000 skilled bricklayers and masons will retire by the end of this decade, but only half that number will finish their apprenticeships and be available to replace them. France lacks workers in activities that range from agriculture to hotel-keeping.

Europe's problem has been caused partly by prosperity. Healthy economies, particularly those such as Ireland's, with fast-growing high-technology industries, have outstripped the local markets' ability to furnish qualified workers. Unqualified workers, by contrast, should be relatively easy to find, given that unemployment in the EU stands at 8.1%, twice as high as in America. But, as people have grown richer, they have become less willing to take manual jobs that are seen as undesirable and undignified, and often pay only the minimum wage. In France, the introduction of a 35-hour working week means that more workers are needed to produce the same economic output, which is aggravating labour shortages.

There are also some structural reasons behind Europe's problems over skilled labour. In many countries,

education and training have struggled to adapt to the needs of a changing economy. For example, Germany's demanding and lengthy training courses mean that only a limited number of qualified workers emerge each year. Demand for more flexible courses is growing, but progress has been slow.

In general, Europeans remain less willing than Americans to move—even within countries, let alone across borders. In Italy, for example, there is persistent high unemployment in the south and a labour squeeze in the north, but southern workers are reluctant to relocate. This has encouraged companies in the prosperous north to fill the gap with immigrants (see article).

Several countries, notably France, remain deeply suspicious of immigration, even when it is clear that it would benefit local companies and not threaten communities. "With more than 2m unemployed in France, it is political dynamite to suggest that immigration is the answer to labour shortages," says a leading commentator. That explains why Medef, France's employers' federation, has no official position on whether immigrant workers should be encouraged.

Jean-Paul Vermes, author of a recent report by the Paris Chamber of Commerce on the recruitment crisis in France, notes that many politicians conflate legal and illegal immigration, producing alarmist statistics about the number of jobs going to foreigners. In fact, he points out, France admits on average only around 20,000 legal immigrant workers each year, one of the smallest totals in Europe. His report made a series of recommendations, including revamping technical and professional training systems, and allowing skilled retirees to re-enter the workforce without losing their pension rights.

Shipping in foreigners

In the short term, however, many companies have no choice but to look around Europe, or farther afield, to find staff. A case in point is Alstom Marine, the shipbuilding arm of France's leading engineering and construction group. In the past three years, it has tripled its business at St Nazaire on the Atlantic coast. By landing a string of contracts for cruise ships, Alstom has put into reverse the long-term decline of France's maritime industry.

French subcontractors have, however, been unable to recruit qualified workers locally, and as much as 70% of each boat is now built by non-French contractors. Welders skilled enough to work on aluminium come from Poland and Sweden, recruited by French companies that can legally employ foreigners provided they pay them above a minimum salary. High-quality electrical engineering and fitting-out work is done by Italians and Swedes. Of Alstom's 13,000 workers at St Nazaire, 5% are non-French. That proportion is expected to rise next year.

Similar stories can be found wherever companies or regions are growing strongly. And as demand for workers increases, companies are putting pressure on governments to become more flexible in their approach to immigration.

A recent report on migration by the OECD noted that there has been a decisive shift towards more temporary migration, particularly related to work. "All over Europe there are examples of specific exemptions to tough immigration laws being allowed for professions where there are shortages," says Jean-Pierre Garson, author of the report. He says that Britain has the most innovative approach. For example, it has been prepared to drop eligibility criteria and replace them with fast-track work permits for workers in areas that suffer the worst shortages. Companies such as Alstom will be hoping that this pragmatism spreads. Without it, their ability to grow will be severely hampered.

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Polyglot production

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From The Economist print edition

SIXTY kilometres north of Venice, Conegliano is typical of those small towns whose tightly run family businesses drive the economy in north-east Italy. And Omad, a firm that produces around 1.5m fittings for window shutters each year, is typical in another way: in its heavy reliance on immigrants from outside the EU, who make up about a third of its 50-strong shopfloor payroll.

One line of presses that stamp out steel hinges is manned completely by *extra-comunitari* (non-EU) employees. Victor Amponsa, who comes from Ghana, worked illegally for three years near Naples, harvesting tomatoes and watermelons, before Omad hired him on a regular contract in 1997. His colleagues on the production line come from Chile, Ecuador and Serbia.

Immigrants began arriving in the Veneto in the early 1990s, when war started in the Balkans, coincidentally at a time when local firms first felt the labour market tightening. Roman Catholic and charitable organisations helped tackle the bureaucracy for residence and work permits. They also operated as unofficial labour exchanges, introducing immigrants to potential employers. Now the *extra-comunitari* have themselves become the network for employers to find workers.

There is no national or racial antagonism at Omad, despite the fact that it has people from ten different countries on its books, says Angela Dacco, who runs the firm that her grandfather founded in 1920. “We have come here to work and escape the problems at home,” agrees Dragama Simic, a Serb from Belgrade. Her colleagues include Albanians and Bosnians.

It is odd that the labour needs of companies in the Veneto, whose unemployment of around 3% in effect means full employment, are met by *extra-comunitari*. Unemployment in southern Italy stands at over 20%. But jobless southerners want jobs taken to them, rather than moving to where the work is. This split between northern and southern Italy occasionally makes news, as in January when a northern engineering firm revealed that it could not fill 1,500 vacancies.

Companies are reluctant to go south, however. They prefer to build factories in Central Europe, which is closer and where labour costs less. Were jobs at Italian plants to be restricted to EU workers, many firms would be at risk. “Without our *extra-comunitari* we would have to cut back drastically and might even have to close,” says Ms Dacco. A large chicken-processing factory near Conegliano would face certain shut-down, as would many of the region’s tanneries, where non-EU workers form most of the payroll.

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Layoffs

Dotgone

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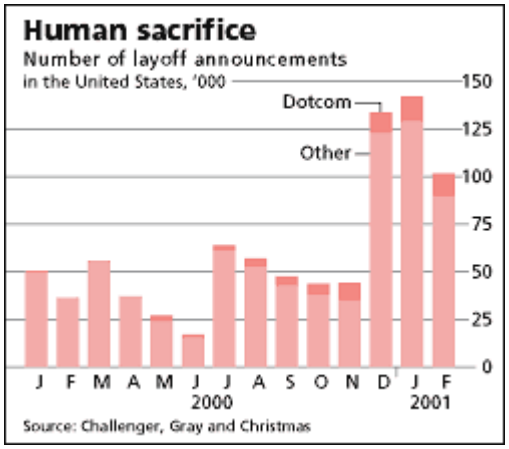
From The Economist print edition

THE “new economy” really is different: it is worse, at least for those who not long ago were working in it. Layoff announcements in America have reached levels not seen since the downsizing epidemic of the late 1980s. This week alone, more than 30,000 workers lost their jobs, in businesses ranging from frothy dotcom consultancies such as marchFIRST to established institutions such as Charles Schwab and Motorola. This brings the announced total since the start of the year to around 350,000. Unannounced layoffs are even higher. Panic is starting to spread through the cubicle farms.

Downturns have always brought layoffs, but this time the downsizing is different. For a start, it is coming more quickly and with less warning. Until a few months ago, the technology industry claimed some of the fastest-growing companies in history. Their executives spent sleepless nights worrying about where they would find the new engineers they needed. Now, in true Internet time, they must suddenly shift into reverse, a gear many have never even found before.



Once, companies might have soldiered through what they suspected would be a short-term dip, but this time they do not have that luxury. The larger public firms, whose price/earnings multiples are still high despite steep price falls, cannot risk missing another quarter’s profits. They feel obliged to offer investors an instant human sacrifice to show that they still care about market opinion. Start-ups, meanwhile, must cope with even harsher investors. Some have been forced to accept bail-out funding on brutal terms. The venture-capital backers of such firms as UGO Networks and Shutterfly have made their most recent rounds of funding contingent on layoffs of up to 45% of staff.

This is the first big redundancy wave to affect mainly “knowledge workers”, rather than manufacturing employees. In some ways this is a good thing: knowledge workers tend to be younger, with more portable skills than, say, an ex-steelworker. But there are costs, too. They rarely have unions to protect them; nor can workers sacked by dotcoms expect much severance pay.

Dotcoms have become notorious for bungling their day of reckoning. Employees often first hear about their layoffs from gossipy websites such as fuckedcompany.com. Others hear too late, returning from holidays to find somebody else sitting at their desk. This stems partly from the chaos that has hit the entire industry, but it also reflects management inexperience. Start-ups are usually unprepared for layoffs, having few policies and employee-performance reviews in place that would ease the process of deciding which workers to sack—and defending it in court, if necessary.

Even at bigger firms, the arrival of mass layoffs has turned the spotlight on to some controversial practices. Rather than cut across the board, companies such as Sun Microsystems, Nortel and Intel ask managers to rank their employees on a bell curve, with the bottom 10-33% found wanting (a process known as “ranking and spanking” or the “hell curve”). In many cases, the bottom decile is at risk of termination for performing badly, which often means no severance.

This method, which General Electric, Ford and others have used for years to tune up their workforce, is seen by some as a disciplined way to force the issue of performance to the fore. But it can be demoralising and dangerous when applied too quickly, without objective performance criteria to back up subjective rankings. If it turns out to have a disproportionate impact on older workers, women or minorities, it can even be the makings of a discrimination suit.

Firms such as Computer Associates have been accused of disguising layoffs as performance-related sackings, either to avoid the public-relations stigma or the severance packages of a formal layoff. A

recent investigation by *The New York Times* found that hundreds of Computer Associates employees had been sacked this way over the past few months, even when they had an above-average track record.

Yet such cases are not as straightforward as they seem, because in good times managers tend to give employees better marks than they deserve, to avoid confrontation. “Ninety per cent of the records I’ve seen for fired employees had above-average or excellent ratings,” says Phil Berkowitz, an employment expert in the New York office of Salans, a law firm. A Supreme Court decision last year made firing somebody for poor performance, when other reasons actually dominated, enough to find evidence of wrongful dismissal. “I think we’ll see a rash of lawsuits,” Mr Berkowitz says.

The most effective way to sack lots of people is to close a division or office, releasing all those who work there. Many of the dotcom consultancies, such as Viant and Razorfish, have closed regional offices, laying off almost 10,000 employees in the process. But that rarely goes far enough: other cuts are needed in continuing operations. The challenge there is to make layoffs look fair while still retaining the most productive workers. When UGO recently laid off a group of employees, for instance, its main criterion was whether or not their jobs generated revenue. The aim was to bring performance into the equation, leaving the company stronger without being so subjective that it invited a lawsuit.

There is, however, another way to avoid lawsuits: get employees to sign a waiver in exchange for a better exit package. Amazon has offered an extra ten weeks’ severance for employees who sign away their rights. General Motors offers vouchers towards a car purchase. In times like these, that can almost look like a good deal.

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Paris calling Brussels, via Reykjavik

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From The Economist print edition

LARUS JONSSON, the jovial director of Hallo Frjals Fjarskipti, an Icelandic mobile-phone operator, has plans for global domination. Not, thankfully, the old Viking racket of cleaving skulls in distant lands. Mr Jonsson wants to save you money by selling you an Icelandic mobile-phone number.

Keen to move the country from dependence on natural resources (ie, fish) to a “knowledge economy”, Iceland’s government has invested heavily in cellular technology and fibre and satellite links to Europe and America. One result is that Iceland now has the highest rate of mobile ownership in the world. Another, given that there are only about 280,000 Icelanders, is several million surplus phone numbers.

Mr Jonsson reckons this virtual resource makes his country an ideal venue for the nascent business of prepaid roaming services (for travellers making calls on foreign networks). Mint, a British firm that is pioneering prepaid international roaming, agrees. Last year, it bought 50% of Hallo. It plans to use Iceland as a hub from which it can track its users.

The idea of prepaid roaming is simple enough. On arriving abroad, users swap their usual SIM card for an Icelandic one. Their calls are relayed via Iceland, but at a lower, flat rate—about $1.20 per minute for outgoing calls to anywhere in the world, and half that for incoming. Calling through Iceland is a bargain, Mr Jonsson maintains, saving the average user 40%. Ironic, given that Iceland is probably the most expensive country in Europe.

Mr Jonsson reckons that travellers are overcharged for roaming. There is little incentive for operators to bring down roaming charges since many turn a tidy profit by stinging visitors to their network. Indeed, some industry observers think that roaming charges will continue to rise.

Together, Hallo and Mint hope to sell 125,000 Icelandic phone numbers this year, rising to 500,000 in 2002. They will start by aiming at European executives who notch up hefty roaming charges on the road. For frequent fliers, Mr Jonsson recommends two handsets: the usual one for receiving important calls, and an Icelandic one for calling out.

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Face value

Chemical reaction

Mar 29th 2001
From The Economist print edition

Michael Parker, the boss of Dow Chemical, defends his industry passionately against public criticism. His job will only get harder

NOT since the publication in 1962 of “Silent Spring”, a book that uncovered the dangers of pesticides such as DDT, has America been so shocked by a well-documented exposé of the chemicals industry. That, at least, was how the promoters of “Trade Secrets” expected their new TV programme to be greeted. The report, presented by Bill Moyers, a respected journalist, was broadcast this week. In anticipation, dozens of citizens’ groups across the country, from high-school children in Georgia to breast-cancer victims on Long Island, organised public viewings.

The show did not disappoint. Using tens of thousands of internal documents, it outlined a conspiracy by America’s leading manufacturers of vinyl chloride (used to make PVC) to disguise the health risks linked to it. The show then explained that, of the many chemicals in common use today, very few have actually been tested for their impact on human beings—and that this is perfectly within the law. Too little is known about their long-term effects to tell if they are slow-acting poisons.

What does Michael Parker, the boss of Dow Chemical, think of all this? It might seem a bit unfair to put that question to him. After all, he is new in the top job, and has his hands full with Union Carbide, an acquisition for which Dow only recently won regulatory approval. Yet it is this deal that puts Mr Parker in the hot seat. Union Carbide is no ordinary chemicals firm. Who can forget the images of the blind and tormented victims of the gas leak at the company’s plant in Bhopal, India, in 1984? Mr Moyers’s programme this week stirred such memories by mentioning Union Carbide frequently in unflattering terms (as well as Dow). The firm’s former boss, Robert Kennedy, was even shown glibly dismissing the concerns of workers, saying: “If we don’t make those chemicals, someone will.”

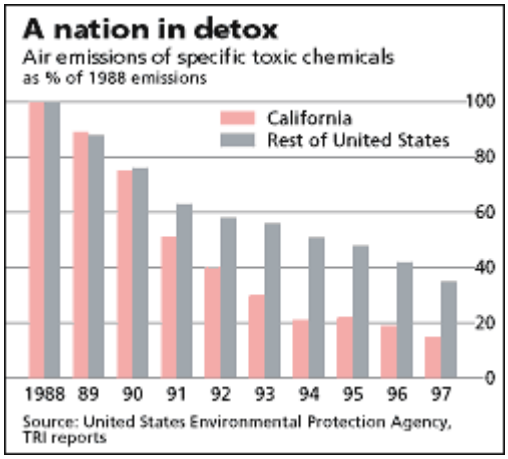
Another reason to challenge Mr Parker is his boast that the acquisition of Union Carbide has made Dow the world’s biggest chemicals company. That is a shaky claim, as DuPont is bigger when measured either by market capitalisation or by revenues. Unlike Dow, though, DuPont behaves as though “chemical” were a dirty word. The Delaware firm has dropped its well-known motto of “Better living through chemistry”, and its bosses insist that it is a “science” concern rather than a chemicals company.

Yet, far from ducking such a label, Mr Parker comes out fighting. He argues that his industry is unappreciated. “Chemicals are an enormously enabling industry, yet few people realise it,” he says. “Just stretch out your hand and pick up ten things in the room. I bet at least six of them were made using chemicals.” Yet, he argues, few consumers or even workers in the industry realise this. “We must inform and inspire people,” he insists.

Earning and retaining the public’s trust today means extending the openness that Mr Parker likes to talk about for his workers to all the industry’s customers. That sounds easy enough. But it would mean, for example, admitting that some of the chemicals deemed so essential to modern life might—just possibly—be slowly poisoning us. It certainly requires a better show than that put on by the industry’s spokesman on Mr Moyers’s programme, who insisted that all chemicals are safe and have been tested. Yet his employer, the industry’s representative body, had previously admitted that about nine-tenths of the industrial chemicals in common use have not been tested. Mr Parker will have to push his industry’s front men to take transparency more seriously.

The best way forward is to disclose full information about the testing and emissions that are involved in the manufacture and use of the industry’s products. For decades, the chemicals industry

has been extremely hostile to all initiatives that would force such disclosure. That, argues David Roe of Environmental Defence, a green group, is because a ray of light can be incredibly powerful. California, which has America's strongest "right to know" laws for chemicals, has seen a bigger drop in the release of toxins into the atmosphere than the rest of the country, where similar initiatives have been thwarted by industry opposition (see chart).



Fingered by technology

If the industry does not try harder, it could find itself in trouble. Technological advances are fortifying the arsenal of weapons available to critics. Earlier this month, Centres for Disease Control and Prevention, a federal government agency, released the first-ever national study to quantify the "body burden" resulting from exposure to lead, tobacco smoke and such chemicals as phthalates and certain pesticides (see article). In the past, experts could estimate human exposure only by testing air, water or soil samples, but now they can measure chemicals directly in blood and urine.

Another threat comes from "fingerprinting" technology that may allow experts to identify exactly where chemicals found in the body have come from. Yet another technology is making it harder for firms to bury nosy critics in mountains of data: Environmental Defence has posted emissions data for America's biggest polluters on the Internet, broken down by post code.

Mr Parker can plausibly claim to be more receptive to these changes than other bosses are. Dow has worked with the Natural Resources Defence Council (NRDC), a green group, to clean up emissions from its factory in Midland, Michigan. This reduced emissions by over 40%, while actually saving money. It also won praise for Dow from NRDC's Erik Olson, one of the industry's fiercest critics. But he follows this up with a warning: "Where tobacco is today, the chemicals industry will be in just a couple of years...the two industries are peas in a pod." Mr Parker may be proud of Dow and its products, but he should also feel a little nervous.

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Asian privatisation

State-owned stockpiles

Mar 29th 2001 | BANGKOK
From The Economist print edition

EVEN as everybody else was fleeing in terror, a handful of eager investors began pouring into East Asia in 1998. They came from private-equity funds and multinationals, their pockets lined with cash for the Great Fire Sale. The bargain hunters visited the stalls of a few troubled tycoons and sickly banks, before heading on to what they hoped would offer the best deals of all: state-owned assets.

Investors had good reason to hope for a fresh wave of privatisations. East Asia's governments had borrowed heavily to bail out their banks, and they seemed to need the money. More important, the region's collapse had exposed some huge structural problems in Asian companies. Many industries clearly needed more foreign technology and experience to boost productivity—especially those sectors in which state-owned firms still dominate, such as energy, telecoms and transport. Yet more than three years after the collapse, most governments are still hanging on to their assets—and a couple have actually bulked up their state-owned empires.

In Malaysia, for example, the government has been snapping up stakes in the private sector. One such deal followed the initial public offering last month of Timedotcom, a telecoms firm controlled by Halim Saad, a heavily indebted businessman with close ties to government leaders. The IPO flopped with retail investors, leaving the underwriters stuck with 75% of the shares. Three government-run funds responded by acquiring a combined 17% stake in the firm, the market value of which promptly plunged. That followed a deal in December, in which the government paid Tajudin Ramli, another well-connected businessman, more than twice the market price for a 29% stake in his ailing Malaysian Airlines. Before that, the state-owned oil giant, Petronas, used its copious cashflow to buy a stake in Proton, the prime minister's pet car project, from a local conglomerate.

Among the many disappointing aspects of these deals were the missed opportunities to bring in foreign strategic investors. Singapore Telecom tried to buy into Timedotcom's parent, but was rebuffed. Similarly, at least two foreign airlines had shown interest in Malaysian Airlines before it was bailed out.

Indonesia's government, too, is now sitting on a bigger pile of assets than it was when the crisis began. Many of these are held by the Indonesian Bank Restructuring Agency (IBRA), which took over much of the banking system after it collapsed. IBRA has bought far more than a stack of bad loans and collateral, however. To make good on their debts, the tycoons who owned failed banks also had to turn over stakes in their industrial empires, ranging from shrimp farms to tyre makers. At the time, one consultant called this the largest nationalisation of assets since the communist takeover of China.

China and its communist neighbour, Vietnam, are now hoping to shrink their state sectors. But Indonesia continues to sit on its new stockpile. It made one high-profile sale early last year, unloading its stake in Astra International, a car firm, for $500m. But it has dragged its feet on other deals. It made some belated progress this month, agreeing to sell some palm plantations from the Salim Group to Malaysian investors. But just as those assets roll out of the loading bay, fresh ones may be arriving via the Sinar Mas Group, which last month pledged stakes in its businesses—including the troubled Asia Pulp & Paper—to make good on its debts to the government.

Although they have not been quite so acquisitive, other governments in the region have been slow to sell existing state firms. The only bright spot has been banking, and even there only up to a point. After taking over several failed banks early in the crisis, South Korea's government was quick to sell stakes to foreigners. Thailand, too, has sold stakes in a few failed banks to foreign buyers. But after long and tortuous negotiations, it refused to strike deals to sell two others, Bangkok Metropolitan Bank and Siam City Bank. In Indonesia, meanwhile, IBRA still sits on its stakes in Bank Central Asia and Bank Niaga, to the IMF's grave displeasure.

In other crucial industries, governments are in even less of a hurry to sell meaningful stakes. In India, where ministers prefer to call privatisation "disinvestment", big strategic investments have been

especially unwelcome. Instead, the government settles for selling small stakes into the stockmarket. This practice raises money and fosters some accountability, but it passes up the huge potential benefits that strategic investors can bring. There is now a risk that Thailand will go the same way. After running a nationalistic campaign, the new government of Thaksin Shinawatra seems determined to rely on local resources when possible.

If Mr Thaksin follows through on promises to list state firms on the stockmarket, it could bring some benefits, both by exposing the firms to more scrutiny and by helping to build up Thailand's domestic capital markets. But a local listing with dispersed ownership is plainly the wrong move for some state firms. Thai Airways could desperately use an injection of money and talent from a foreign carrier, but it seems unlikely to get either under Mr Thaksin, a telecoms tycoon turned politician.

A few signs of hope remain. The new president of the Philippines, Gloria Macapagal Arroyo, says she wants to sell the national power company by mid-year. Singapore, never in tune with its neighbours, also seems keen to speed things up. The government's willingness to reduce its stake in Singapore Telecom, and to give up its veto power over big decisions, made it easier for the company to strike this week's deal to buy Australia's Optus (see article). But elsewhere in the region, governments still seem to treasure control over all else. They may bemoan the lack of foreign direct investment, but they continue to keep some of their best assets off the table.

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Lee up, Li down

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From The Economist print edition

WHAT a difference a year makes. Last March, Lee Hsien Yang, the chief executive of Singapore Telecom (SingTel) was smarting over a defeat at the hands of Richard Li, the boss of PCCW, at the time an up-and-coming Internet company. Mr Li had just snatched Hong Kong's telecoms incumbent, HKT, away from Mr Lee (the two have the same Chinese name, but transliterate it differently). For SingTel, worse was to follow. In May, it was rebuffed again, this time from buying a Malaysian telecoms firm. PCCW, by contrast, sealed deal after deal—and Mr Li became a cyber-celebrity.

That was not how things looked this week. On March 26th, SingTel's Mr Lee was able to declare victory after a long struggle to buy the second-largest telecoms operator in Australia, Optus. The $8 billion offer, from Singapore's largest company, is also the city-state's largest overseas acquisition ever. For Mr Lee, who has been increasingly desperate to expand abroad ever since SingTel lost its domestic monopoly last April, it was the coup that had eluded him for so long. At a stroke, Optus will transform SingTel from a second-rate telecoms outfit that dabbles overseas into a serious regional company with half of its revenues coming from outside Singapore.

For Mr Li, meanwhile, fate has added infamy to injury. PCCW's shares are down by 87% from their high of a little over a year ago. In effect, the market now values only HKT and considers Mr Li's erstwhile Internet vision entirely worthless. Those who courted Mr Li a year ago now accuse him of cynically creating hype without substance. As if to prove the point, PCCW has been forced to admit that it exaggerated Mr Li's educational achievements (he attended Stanford University, but never graduated, as PCCW's press releases have repeatedly claimed). To cap it all, on March 28th PCCW announced a consolidated loss for last year of $886m.

Despite being bitter rivals, Messrs Lee and Li are in some respects strikingly similar. Both are second sons of the most powerful men on their respective home turf. Mr Lee's father is Lee Kuan Yew, Singapore's founder and senior minister; Mr Li's is Li Ka-shing, the biggest tycoon in Hong Kong. Both sons see their future in telecoms. And both benefit from their connections, but hate to acknowledge this.

If there is a difference, it is that SingTel's Mr Lee cannot abide hype and favours dry, analytical substance instead. PCCW's Mr Li is quite the opposite. So when Mr Lee lost the battle for HKT and argued that overpaying to save face is wrong, it is possible that he even meant it.

If so, however, he chose an odd way of redeeming himself this week. Mr Lee knows Optus's main shareholder, Britain's Cable & Wireless (C&W), all too well—it was also the seller of HKT last year. This may be why Mr Lee took no chances this time, offering so much for Optus that SingTel's shares dived on the news—to an all-time low, at one point—just as C&W's soared. The deal will dilute SingTel's earnings for several years to come. After a year in Mr Li's shadow, Mr Lee could be forgiven for craving a moment of fame. Still, who would have thought that the two might turn out to be twins after all?

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The car industry

Downhill racers

Mar 29th 2001 | DETROIT AND LONDON
From The Economist print edition

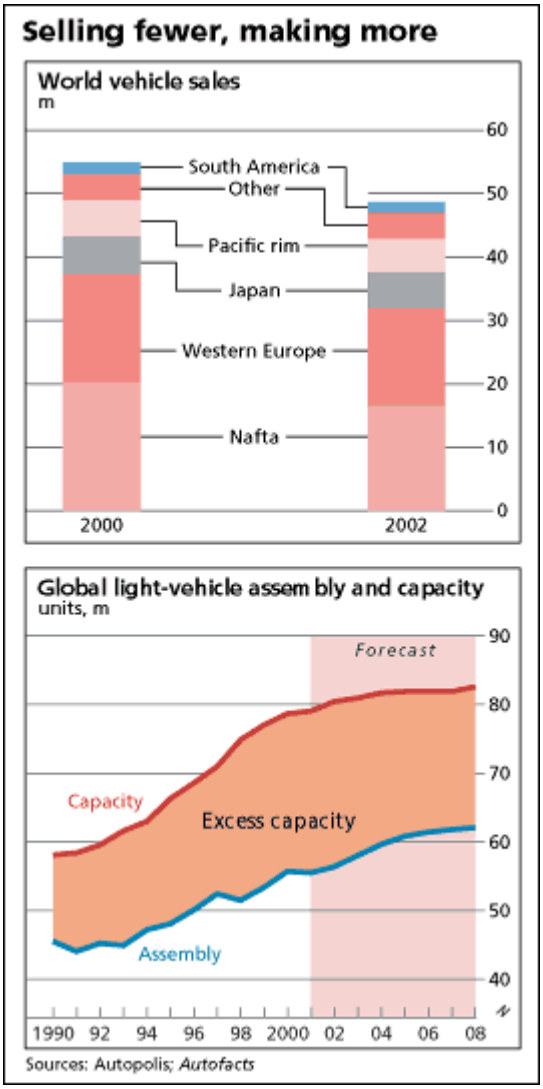
European companies should fare better than their American rivals in the car-market slump that is spreading on both sides of the Atlantic

THE recent film “A Perfect Storm” recounts a tragedy that occurred when three separate storms converged off America’s north-eastern coast, overwhelming an Atlantic fishing boat. The boat could have ridden out one or two, but not the mighty combination of three, which created mountainous seas and cut off any retreat.

This image was invoked by Bob Eaton (until recently co-chairman of DaimlerChrysler) to explain the forces that led him to sell Chrysler to Daimler-Benz three years ago. If anything, Mr Eaton might have been understating the scale of the tempest that is approaching car companies.

The industry faces four challenges. First, it is heading into a big slump in its two main markets, North America and Europe. Some forecasters see worldwide car sales sliding by 11% over the next two years, with a steeper fall of around 20% in America (see chart). But Graeme Maxton of Autopolis, a consultancy, sees three other danger points. The industry is still financially weak, despite a decade of buoyant sales; prices are falling by around 1% a year in both America and Europe; and overcapacity of around 25% is likely to drive prices down further as car makers pump out more vehicles.

Rick Wagoner, chief executive of General Motors (GM), says that he will temporarily shut down some production, to adjust inventories to meet American demand for 16m vehicles this year, down from a record 17.5m last year. Other car makers are doing the same. But outside forecasters are pencilling in figures as low as 15m—a 15% fall in one year alone. For the past year, GM, Ford and Chrysler have kept up sales only by offering discounts of around $1,500 per vehicle. Even so, GM’s and Ford’s inventories stand at 80-odd days of production, 20 days more than usual. And Chrysler admits that it has blown $5 billion of its $7 billion cash pile in the past six months, $2m of it on discounts.



In Europe, profits at BMW, Volkswagen, Renault and PSA Peugeot Citroën have boomed in recent years, thanks in part to strong product design. But overall sales have fallen in eight of the past nine months, and a steep decline of 8.7% in February sent a chill through the industry. The biggest losers in Europe during the boom have been GM, Ford and the Japanese trio of Toyota, Nissan and Honda. For them and for Fiat, which is barely profitable, a downturn will be grim.

GM’s weakness in Europe can be traced to Opel, the bombed-out German subsidiary that is still the core of its European operations. Opel has suffered from a series of quality problems and tired designs, and its brand has taken a hammering. This week, GM at last found a replacement for Robert Hendry, who resigned as head of Opel in January. The new man, Carl-Peter Forster, is the fourth boss in three years.

As for the Japanese, their product weakness has been aggravated in Europe by the fact that they mostly manufacture in Britain and so suffer from the strength of sterling against the euro. Honda admitted this week that its European operating

losses this year would be ¥50 billion ($408m), almost four
times as much as last year. The company is slashing its dealer network in Europe to create fewer, but bigger outlets, and is switching some production at its Swindon factory to make SUVs for the American market rather than small cars to sell in Europe.

The financial weakness of the car companies is mainly due to their failure to rationalise aggressively enough in the consolidation that began with the creation of DaimlerChrysler in 1998. Several other mergers and alliances have followed. Some, such as Renault's rescue of Nissan, have led to capacity cuts and dramatic profit recovery, but others, such as GM's alliances with Fiat and with a string of Asian firms, have yet to produce results.

The three American manufacturers are also vulnerable because their profits have come from too narrow a model range—a few pick-ups, SUVs and minivans—while the mid-sized saloons and smaller cars they make earn only meagre returns, or even lose money. Now that the Japanese are building their own SUVs in America, this segment looks crowded. Car makers must dream up some exciting new vehicles to entice jaded and cautious consumers to open their wallets in a downturn. So far, Detroit's attempts to do so have been embarrassing—the most egregious example being GM's goofy Aztec SUV. Worse, both GM and Ford have failed to offer good diesel engines, which are popular in Europe.

Back from the brink

The recent success of European companies such as Volkswagen, Renault and PSA Peugeot Citroën, all of which have bounced back from near-death experiences, is instructive. They may have improved their efficiency in many ways, but the secret of their success has been innovative products, such as the Renault Megane Scenic and the Citroën Xsara Picasso, the bestselling compact people-carriers. VW has transformed its profitability by moving all 54 of its models on to four basic floorpans.

By comparison, the Americans and Japanese have suffered in Europe because their model ranges are old and bland. Alain Uyttenhoven, head of brand management at Opel, observes ruefully that "with five body styles you could cover all of Europe's product segments in 1989. Now that would reach only 50%." It is ironic that the Europeans, notably the French, are showing the way as the car market fragments and branding becomes crucial. Today, the art is to have engineering skills and product development, combined with a flair for brand management that Europeans normally deploy only in luxury goods. It has so far worked a treat for the best French and German car firms. It may even shield them in the coming downturn.

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Polish telecoms

Three's a crowd

Mar 29th 2001 | WARSAW
From The Economist print edition

PICK your suitor with care—especially if you're dancing with more than one. That is a lesson Barbara Lundberg, the embattled American boss of Elektrim, Poland's flagship conglomerate, is unlikely to forget. She helped transform the once-sprawling communist-era trading company into a much leaner telecoms and energy group. But she and her fellow managers have now become caught up in a fierce tug of war between Elektrim's two covetous foreign partners, Vivendi Universal and Deutsche Telekom, over its prized telecoms business.

Ever since Ms Lundberg took the reins in early 1999, Elektrim has been riding a corporate rollercoaster, with bold acquisitions, perennial legal and financial uncertainties and eleventh-hour rescues by foreign investors. When the company secured a majority stake in Polska Telefonia Cyfrowa (PTC), Central Europe's largest mobile-phone operator, it became an attractive partner for serial predators, such as Deutsche Telekom, that wanted to expand their Central European operations.

In 1999, Elektrim snubbed the German carrier by teaming up with Vivendi in a two-stage deal that kept the Polish group afloat and gave the French media giant 49% of its telecoms unit (which holds a majority stake in PTC). As a founding shareholder of PTC bent on winning control, Deutsche Telekom launched an arbitration case against Elektrim, contesting its majority ownership of the mobile operator.

Allegiances soon shifted, however. Elektrim's relations with Vivendi cooled last year, and it sought rapprochement with the Germans. This led to last December's agreement to sell six fixed-line businesses (including one of the lucrative licences for Warsaw) to Deutsche Telekom, as a prelude to ceding control of PTC.

Ever since, Vivendi has been looking for ways to hit back. It planned to stage a coup on March 28th, by teaming up with allies on Elektrim's supervisory board to oust Ms Lundberg and her deputy. But the plot was foiled at the last moment by boardroom opponents, three of whom resigned to deny Vivendi a quorum.

All this has left Elektrim's minority shareholders, who are mostly in favour of the Deutsche Telekom deal, baffled. They are threatening to kick up a stink. A group of prominent institutional investors, including Schroders, Invesco and Templeton, which between them own more than 20% of the shares, have called a special meeting for April 20th in the hope of shaking up the board. They are incensed that the coup-plotters represent shareholders with less than 10% of Elektrim, and are determined not to let Vivendi (with less than 5%), or Deutsche Telekom for that matter, call all the shots.

They may yet win, as the power that minority shareholders can wield in Poland is growing. Shareholder activism used to consist of little more than occasional (and largely fruitless) outbursts by Mark Mobius, an emerging-markets guru. But it has received a boost from a new force on the capital markets: domestic pension funds, two of which called for the Elektrim meeting next month.

With 3.2 billion zloty ($800m) parked in local equities at the end of last year, the pension funds have amassed stakes in a slew of companies. They have already become involved in two high-profile cases. Minority shareholders at Stomil Olsztyn, a tyre maker, are taking legal action against Michelin, the firm's strategic investor, alleging that profits were illegally transferred, while investors in Bank Slaski are threatening to scupper a planned merger with ING's Polish unit if the Dutch bank does not improve its public bid and appoint an independent auditor.

But Elektrim is different. For one thing, investors cannot agree who is the baddy. Then there is the crucial issue of future strategy. Elektrim has hinted that it may eventually scale back its telecoms business and return to its roots in power, but it seems uncertain. Only one thing is for sure: neither Vivendi nor Deutsche Telekom is ready to retreat. At some point, Elektrim will have to go through a stormy divorce. Whether it can forge a more monogamous, let alone durable, partnership with its remaining spouse is

anybody’s guess.

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The costs and cures

Mar 29th 2001
From The Economist print edition

Britain has changed its attitude towards vaccination as a way of controlling its current epidemic of foot-and-mouth disease. But vaccination offers no quick fix against a supervirus that can, literally, blow in from anywhere

Get article background

AP

Some countries' sheep get regular jabs

CUMBRIA, in north-west England, is home to the Lake District national park, long synonymous with wandering poets, fells, mountains and sheep. It is undoubtedly one of the most beautiful, and most visited, areas of the country. But in recent weeks it has also become synonymous with something much less Elysian—namely, foot-and-mouth disease (FMD). Almost 40% of the recent confirmed cases of FMD in Britain have been in Cumbria, and this is one of the areas where the government is now concentrating its efforts to eradicate the disease.

Despite Tony Blair's claims this week that Britain is still "open for business", that is not how it looks in Cumbria and those parts of the country most affected by the disease. Tourists are staying away in hordes, and many farmers are living under siege. To those on the ground, it was only this week (more than 30 days after the first case of FMD was confirmed) that the government looked as though it was belatedly treating the epidemic with the seriousness it deserves.

Last weekend, a special cabinet committee was convened to oversee the crisis, and the army was at last called in to dig huge pits in which to bury animal carcasses. At an old airfield in Cumbria, giant trenches have been carved out to take up to 500,000 animals.

On March 27th, the agriculture minister, Nick Brown, gave the official account (or, at least, theory) of how Britain's foot-and-mouth epidemic might have started. Infected meat, probably imported illegally from East Asia, went to a restaurant in the north-east of England, and the waste ended up in the swill fed to pigs at a farm in Heddon-on-the-Wall in Northumberland. Some time later, the disease was detected in pigs from the Heddon farm at an abattoir in Essex, over 250 miles (400 km) away.

The British outbreak of FMD has now spread to three other European countries. France has reported two cases; the Netherlands seven; and Ireland one. But the disease is found worldwide, a well-known affliction that has plagued farmers for at least 400 years. Outbreaks have been reported in 34 countries in the past 18 months. The virus now plaguing Britain is one of seven main types of FMD—the so-called "Pan Asia" variety. It started in India in 1990 and subsequently spread east to China and Japan at the same time as it went west to Europe.

The international organisation charged with collating information on FMD world-wide is the Office International des Epizooties (OIE). Since the 1970s, the OIE has been in charge of deciding which areas of the world can carry its privileged "disease-free" status. Most countries will not import animals or meat from places that do not have that status from the OIE.

There are several classifications of disease-free status, of which the most important are: disease-free countries where vaccination is not practised; disease-free countries where vaccination is practised; and disease-free zones within larger countries (such as South Africa and Argentina) or areas such as the EU, which was disease-free from 1989 until last month. In large tracts of sub-Saharan Africa, Asia, Latin America and the Middle East, where FMD is endemic, more than 1.5 billion doses are used annually in vaccination programmes.

EPA

It's not only farms that are out of bounds

To maintain their status, disease-free zones have to prove, among other things, that there has been no outbreak of FMD for at least 12 months. They also have to have in place "an effective system of surveillance" and to ensure that all "regulatory measures for the prevention and control of FMD have been implemented".

The flying bug

The FMD virus is highly infectious. Veterinarians are hard-pressed to think of a germ which spreads so readily. Infected animals take 2-14 days, depending on the species, to develop clinical symptoms. In the early days, they become viral factories, turning out millions of FMD particles which find their way into bits destined for the food chain, such as milk and meat, and into other bodily fluids, such as saliva or urine, which contaminate the environment. Fortunately, the virus does not affect humans.

It does, however, have great staying power, and because it can linger on carcasses, or leach into the surroundings, the time between diagnosis of the disease and slaughter, and then destruction of the carcass, is critical. FMD struck in Denmark in 1982, but the country managed to keep this interval down to 15 hours, and limited the epidemic to 22 outbreaks. In the British onslaught, with over 700 reported cases, the gap between diagnosis and slaughter has been 2-3 days, which will have contributed to the disease's spread. More manpower, in the shape of the army, will help to close this gap.

Many viruses are tenacious, but what gives FMD its "super" status is the fact that it can fly. It can be carried on the wind by droplets exhaled by animals, mainly pigs. The 1981 outbreak on the Isle of Wight is thought to have originated in Brittany, the virus having wafted over the English Channel.

The movement of animals across Britain, to markets and abattoirs, probably accounted for much of the virus's early spread in the days leading up to February 20th this year, when the first outbreak was confirmed, and February 23rd, when the government called a halt to all animal movements. The outbreak in the Netherlands, in five veal calves imported from Ireland, has been traced to their chance encounter at a transit farm in France with a shipment of infected sheep that were travelling from Britain.

Although the disease can kill young animals, it is not deadly in adults. It afflicts their mouths with nasty, fluid-filled lesions stuffed with virus, which then spreads to other bits of the body, such as the hooves. Animals can recover from these symptoms within weeks, but some species are never the same again. Cattle, for example, can lose up to half of their milk production in the first year after infection, and have a hard time putting on weight after they have had the disease. Because compensation is available, it is more economical for a farmer to kill the animal than to keep it.

Moreover, once recovered, sheep and cattle can still be viral carriers, and so still present a potential source of infection. The virus can also survive processing, so not only do FMD-free countries prohibit the import of live animals from infected regions, they also ban fresh meat and meat products, as well as straw and hay. So far as those grappling with an epidemic are concerned, infected beasts are better off dead.

This week, Britain was given the option by the EU to vaccinate 180,000 cattle in the most infected areas, if necessary. The OIE is not prescriptive about vaccination; the issue is only important because countries still cannot distinguish between diseased and vaccinated animals. In places where the disease is not endemic, governments use a mix of reactive measures (including limited vaccination) tailored to their

circumstances.

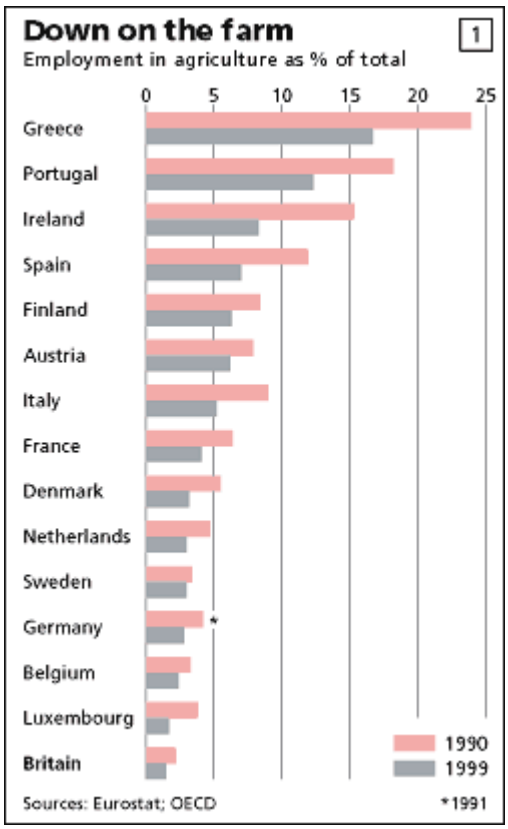
In Argentina, for example, the authorities have adopted British-style restrictions on animal movement and slaughter. But they have also been following a policy of strategic ring vaccination around the outbreaks, and implementing a generalised vaccination programme in the province of Formosa in the north of the country.

Despite the EU ban on general vaccination, the Dutch have won permission for the limited use of vaccination in their current crisis. They argued that they have little room to burn and bury carcasses, so animals earmarked for slaughter are vaccinated instead, prior to slaughter. This means that they are prevented from continuing to be infectious as soon as possible after identification.

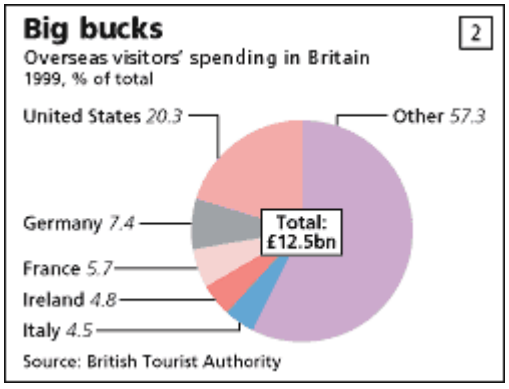
Economic strains

Just as the ways of controlling the disease vary from country to country, so do the economic implications. FMD hits the agricultural sector of an economy hard, but a reactive regime based solely on restricting movement and slaughtering may affect other businesses and industries even more.

In Britain, farming has been shrinking rapidly in recent years, and is now down to 0.9% of GDP, employing only 1.5% of the workforce (see chart 1). A recent report on the effect of the FMD crisis in Britain from accountants at PricewaterhouseCoopers (PWC) postulates an “optimistic” scenario and a “pessimistic” scenario. On the optimistic scenario, the loss to the agricultural industry this year will be a mere £500m ($720m); on the pessimistic scenario, it rises to £1.6 billion.



These losses are smaller than those expected in the tourism industry. With national parks and many other properties closed for the duration, tourism and related businesses in rural Britain are already suffering badly. The British Tourist Authority (BTA) estimates that foreign visitors spent £12.5 billion in Britain in 1999, as well as the £3.2 billion they paid in fares to British carriers. By far the biggest spenders are the Americans (see chart 2).



On PWC’s “optimistic” scenario, the industry is set to lose 5.8% of potential revenues in 2001, or around £1 billion—twice the loss of the agricultural sector. The BTA is now desperately trying to woo back potential American visitors put off by lurid tales of foot and mouth. Some hotels are offering 50% reductions in a promotional campaign called Great Value Britain, while Virgin Atlantic and British Airways are offering to reschedule trips affected by the outbreak.

But Britain’s domestic tourism is worth much more than its overseas tourism, and on PWC’s “pessimistic” scenario losses here will amount to £3.4 billion. Overall, the impact of the foot-and-mouth crisis on Britain in 2001 could be between £2.5 billion and £8 billion, or between 0.3% and 0.8% of GDP.

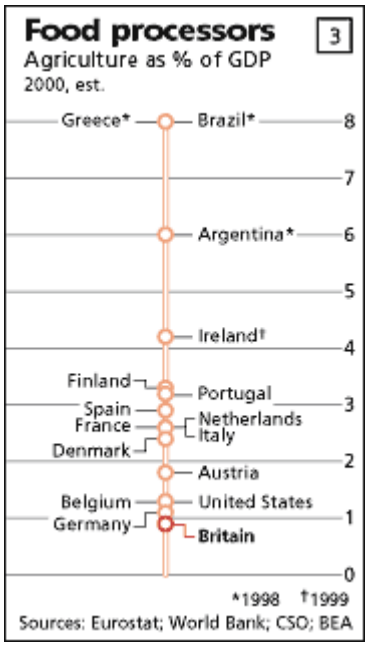
In the light of such figures, some economists have argued that Britain should sacrifice its disease-free status and adopt a vaccination programme. This would open the countryside again and reduce the harm done to industries such as tourism. The downside would be the loss of a proportion of Britain’s agricultural export market. But one economist, Peter Midmore of the Institute of Rural Studies at the University of Wales, has estimated that only £310m-worth of exports would be threatened by vaccination. This includes all meat products, but not all dairy-based exports.

Mr Midmore argues that the case for a programme of limited, emergency vaccination is “overwhelming”. But the calculations rest on a number of assumptions: that the programme of vaccination could be limited, and that Britain could win back her disease-free status in a relatively short space of time. The chances of keeping a vaccination programme to limited areas decreases as the disease spreads. And although theoretically, according to the OIE, Britain could regain its disease-free status only three months after the last vaccinated animal had been slaughtered, in practice, due to the extent of the epidemic in Britain, it would be hard to eradicate FMD to the OIE’s satisfaction. Few are willing to bet on when Britain would get its disease-free status back. Meanwhile, the damage to exports would grow.

The picture looks different in Ireland, which introduced draconian restrictions on the movement of all animals, including humans, as soon as the outbreak was declared in Britain. So far, the Irish have successfully limited the number of confirmed cases to one. But FMD could wreak much more damage in Ireland, because farming still accounts for 4.2% of GDP, and employs 8.3% of the workforce. One official source estimates that 60,000 jobs are at risk in Irish agriculture due to the FMD outbreak.

It also looks different in the rest of the European Union. Unlike Britain, a lot of continental European countries, such as Denmark, Germany and the Netherlands, have flourishing export markets beyond the EU for products like beef and pork. In 2000, the EU exported 1.53m tonnes of pigmeat, of which 408,000 tonnes went to Russia. At the moment, though, the EU is losing 73% of third-country pigmeat exports because of its limited FMD measures.

The EU is now desperate to get its disease-free status back, and is against vaccination because it would damage its lucrative export markets. Even if Britain wanted a general vaccination after this outbreak, its EU partners would strenuously resist it.



At a farm near you

The arguments against FMD vaccines are also based on biology—what they can and cannot do. Like the flu vaccine, the hope is that the anti-FMD shots will prepare the immune system to produce antibodies that can fight off a real infection, without actually causing the disease in the process. But so-called “killed” vaccines only provide protection for 6-9 months, so animals must be repeatedly immunised. And regular vaccination is not cheap.

David Harvey, an economist at the University of Newcastle, has calculated that an animal-vaccination programme introduced in the wake of the 1967 FMD outbreak in Britain would have cost £5 billion over 34 years at current prices, without guaranteeing protection. More worrying, according to Yves Cheneau, an animal-health expert at the Food and Agriculture Organisation (FAO), is the fact that the current crop of vaccines does not prevent a minority of animals from harbouring the virus without themselves developing the disease, becoming FMD carriers which authorities fear may go on to infect other animals.

Commercial factors also pose a problem. The standard test accepted by the OIE looks for antibodies against FMD as a sign of infection, but these are the same antibodies that vaccination produces. This confusion, along with their possible carrier status, means that immunised animals are excluded from trade as well.

Given the current rules of the game, it is not surprising that big agricultural exporters so far untouched by FMD, such as America and Australia, are not rushing to protect their animals through immunisation, preferring vigilance to vaccination. Nor is it remarkable that countries such as Britain, which were previously free of the disease, should choose to deal with its outbreaks first through “stamping out”—slaughtering and disposing of all infected stock and animals which may have come into contact with them, disinfecting premises, restricting animal movements, and closely monitoring the epidemic as and where it unfolded.

So whether even an “emergency” vaccination programme in Britain now, at this stage of the epidemic, would help much is debatable. It might be a more attractive option if better vaccines, especially ones which eliminated the carrier state, and different diagnostic tests were available. Progress on new vaccines has been slow, in part because of the complexity of the virus and its many strains, and in part because public- and private-sector vaccine makers have little reason to invest while rich-country governments eschew the practice.

That said, new approaches—for example, borrowing biotechnology from the field of human vaccines—are already in the works and, given the resurgence of the disease in Europe, more are likely to follow. Better diagnostic tests to distinguish between vaccinated and infected animals are already at hand. One, developed by the IZSLE, a government research centre in Brescia, Italy, has already been used successfully on animals in Albania, Macedonia and Argentina. According to Yves Leforban, head of the European Commission for the Control of Foot-and-Mouth Disease, it has yet to be accepted by the OIE because of technical concerns. Given the current crisis and the pressure for emergency vaccination in Europe, however, the organisation may soon start to re-evaluate the test’s merits.

The one clear lesson from the current outbreak of FMD in Britain is that simply being concerned about one’s nearest neighbours’ treatment of the disease is not enough. The EU already helps Turkey to combat FMD in Thrace, which is considered a critical buffer zone in the virus’s spread from Asia westwards. Australia, likewise, currently helps to fund the Philippines’ eradication effort. Foot-and-mouth disease will probably never be swept from the world entirely, given its hiding places in far-flung rural spots and wild species. So every country should take careful note of Britain’s experience; for the virus could very soon blow in at a farm near you.

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Submerging again?

Mar 29th 2001
From The Economist print edition

America's slowdown is likely to prove painful for emerging economies in Asia and Latin America

EVERY year or two the world seems to go through some sort of emerging-market crisis: Mexico in 1995, Asia in 1997, Russia in 1998 and Brazil in 1999. Plenty of people reckon that another crisis is now overdue. They cite several potential faultlines, from Turkey, which was forced to devalue in February, to Argentina, where the risk of default is rising. In fact, the greatest problem for emerging economies appears to be the slowdown in America's economy.

Over the past few years America's economic engine has helped to pull along emerging economies, by sucking in imports. Nowhere has this been more crucial than in East and South-East Asia, where exports account for almost two-fifths of regional GDP. America is the region's biggest export market, with Japan second. Together these two take about one-third of the region's exports. Little wonder, then, that the recent troubles of both economic giants have undermined business confidence in Asia's economies.

During Asia's financial crisis in 1997-98, America was growing at an annual rate of more than 4%. Such powerful growth in their biggest market, combined with their super-competitive currencies after devaluation, allowed the Asian economies to export their way out of recession. The region now faces a double-edged threat. Not only is America's economy faltering, reducing its overall appetite for imports. The economy's demand for information technology (IT) equipment is likely to fall even more sharply, as business investment slumps. Electronic equipment accounts for over half of total exports by Malaysia, Singapore and the Philippines; it makes up as much as 80% of Malaysia's exports to America.

As American firms slash their IT budgets, emerging Asia is suffering a sharp slowdown in exports. In Taiwan, exports were 4% lower in January and February than a year earlier, compared with an annual growth rate of 30% in the third quarter. South Korea's export growth has slowed from 27% to 6% over the period. South Korea's GDP fell in the fourth quarter of 2000, at a time when American firms had barely begun to slash their IT budgets.

An analysis by the Asian Recovery Information Centre, part of the Asian Development Bank in Manila, concludes that, if the growth rate of electronic exports were to fall in volume by 20 percentage points, from an annual 30% in recent years to 10%, this would knock two percentage points off Malaysia's GDP growth rate, and 1.2 percentage points off South Korea's. Much more would be knocked off if IT exports actually went into decline.

Exports have long played a leading role in Asia's growth, but there is a key difference this time, compared with America's last recession in 1990-91. Domestic demand is weak, and governments have less scope to boost it. A legacy of the 1997-98 crisis is that many countries already have swollen budget deficits. Asian economies, excluding China, ran an average budget deficit last year of almost 4% of GDP; in 1997, before the full force of the financial crisis, their budgets were close to balance. And monetary policy is likely to be less effective now, because the region's financial systems are fragile. Banks, still saddled with too many bad loans, are unwilling to increase new lending.

Most economists expect America to slow sharply this year, but still to escape a recession. If so, then East Asia's growth might dip from 7% last year to 5%. But suppose, to take a gloomier view, that America has zero GDP growth this year. Asian growth would then dip to 3.9%, according to Goldman Sachs. Apart from the mid-crisis year of 1998, that would be the slowest since the late 1970s, even though the figure includes China, which not only has high natural rates of growth, but is also relatively less affected by an

American downturn. The bank estimates that growth in South Korea, Taiwan, Hong Kong and Singapore would drop from a combined 8.5% to 2.3%, and growth in the non-developed ASEAN economies from 4.8% to 1.3%.

Fears that the region is about to suffer another financial crisis are overdone, all the same. Most of the former Asian tigers have abandoned the fixed exchange rates that were at the root of their previous crisis. In 1997 all of them had large current-account deficits, but today they have surpluses. They have also replenished foreign-exchange reserves and cut short-term debt.

In 1996 most Asian currencies were tied to the dollar. As the dollar soared against the yen, this eroded their economies' competitiveness. In contrast, over the past year, as the yen has slumped once more against the dollar, Asian countries have allowed their currencies to fall. For example, the Korean won has fallen by 15% over the past 12 months. This has helped competitiveness.

Latin losers

Emerging Asia is hurt by a sharp slowdown in America (and Japan) largely though exports. In contrast, emerging economies in Latin America have only modest trade links, with the notable exception of Mexico. Eastern Europe, meanwhile, is more dependent on markets in Western Europe.

The dependence of Brazil and Argentina on exports to America is tiny, just 2% and 1% of their respective GDPs. In contrast, Malaysia's exports to America amount to 24% of its GDP. Where Latin economies are more vulnerable, however, is in their need for foreign capital. They cannot afford to see it dry up.

The table shows some striking differences among emerging economies in Latin America and Asia. Not only is Latin America a great deal less dependent on exports to America and Japan, but exports of IT equipment are also less prominent. On the other hand, while the Asians have current-account surpluses, Latin American economies all have deficits. If international investors become more risk-averse in the face of an American recession, it is the countries with the biggest external financing needs that would suffer most.

Indecent exposure

	Exports as % of GDP, 1999, to:		IT equipment as % of total exports 1999	Current-account balance as % of GDP 2000	Total external debt as % of exports* 2000
	US	Japan			
China	4.2	3.3	15	1.5	51
Hong Kong	26.2	5.9	22	3.7	19
Indonesia	6.0	7.4	13	7.3	203
Malaysia	23.5	12.5	53	9.9	41
Philippines	13.7	6.1	63	11.6	98
Singapore	26.0	10.0	52	23.6	5
South Korea	7.1	3.6	30	2.4	65
Taiwan	11.4	4.5	37	3.0	23
Thailand	10.7	7.2	26	7.8	92
Argentina	0.9	0.2	4	-3.3	412
Brazil	2.0	0.4	5	-4.1	334
Chile	4.6	3.4	na	-1.2	169
Mexico	24.9	0.3	19	-3.1	90

Sources: Goldman Sachs; MSDW; J.P. Morgan Chase; EIU; national statistics
*Exports of goods and services

Argentina, one of the few economies that is still tied (through its currency board) to the dollar, has now been in recession for almost three years. This has made it harder for the government to reduce its swollen public debt. Argentine bonds account for as much as one-quarter of J.P. Morgan's benchmark index of emerging-market bonds. So if Argentina defaults, or is forced to reschedule its debt, the contagion effects on other borrowers in the region could be nasty.

Argentina's problems have already sent the Brazilian currency and bond markets tumbling this year. On March 21st, concern that a weaker *real* would push up inflation caused the central bank to increase

interest rates for the first time in two years. That did not stop the currency sinking to a new low. The Mexican peso, by contrast, has been more resilient, even though 88% of the country's exports go to America.

Brazil is relatively insulated from the direct impact of a fall in American imports, but it has a current-account deficit of over 4% of GDP, and its foreign debts amount to more than 330% of its exports, second only to Argentina's 412%. South Korea's debt of 65% of exports looks small by comparison.

Anything that seems likely to cause even a small deterioration in Brazil's external account—whether coming from America or Argentina—could therefore set off jitters in Brazil's financial markets and push the currency lower. That would force the central bank to raise interest rates to hold inflation within its target. About half of Brazil's public debt is linked to overnight interest rates, and almost one-quarter is linked to the *real*-dollar exchange rate. So a rise in interest rates and a fall in the currency automatically swell the government's debt burden.

On the whole, though, East Asia will suffer more from America's economic downturn than Latin America. America's boom in the late 1990s was the main reason why emerging Asian economies got back on their feet faster than expected after their crisis. In turn, the boom allowed governments to delay reforms, such as bank and corporate restructuring. With America slowing, they may regret their dithering. The Asian economies would be in a better state to weather the coming storm had they put their houses in order first.

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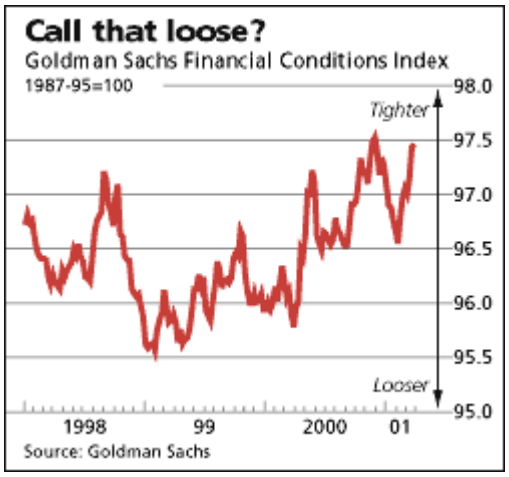
Tight-fisted

Mar 29th 2001
From The Economist print edition

THE surge in American consumer confidence in March, as tracked by the Conference Board, was greeted with widespread relief. Commentators concluded that aggressive easing so far this year by America's Federal Reserve is helping to prevent a recession. Hang on a minute: what aggressive easing?

Interest rates have been cut by one-and-a-half percentage points over the past three months. By themselves, though, interest rates are a poor gauge of the tightness of policy. Monetary policy also affects the economy through the exchange rate and the stockmarket. This is why Goldman Sachs, an investment bank, publishes a "financial conditions index", which includes short-term interest rates, corporate-bond yields, the dollar's trade-weighted index and the ratio of stockmarket capitalisation to GDP. The level of the index reflects the looseness of financial conditions: a fall in either interest rates or the exchange rate means a loosening, a drop in share prices a tightening.



Over the past decade, Goldman Sachs's index has been a better predictor of economic activity than interest rates alone. It is alarming that the index shows that the cuts in interest rates this year have been fully offset by the plunge in share prices and the rise in the dollar. Indeed, the index suggests that financial conditions are now close to their tightest in three years. That might undermine optimism that the Fed can steer the American economy away from recession.

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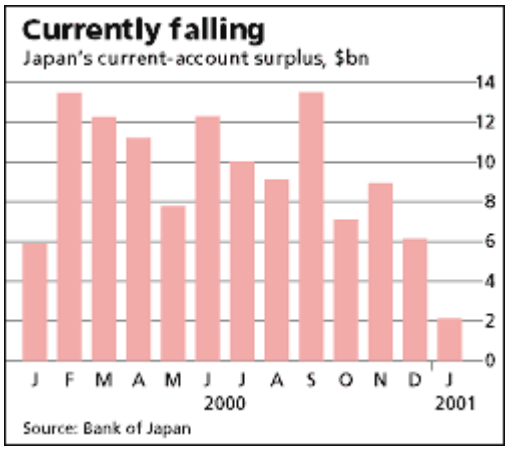
Japan's economy

Wrong or strong?

Mar 29th 2001 | TOKYO
From The Economist print edition

HERE'S a puzzle: Japan's shrinking surplus on the current account. The most common explanation offered is that foreign demand for Japanese cars, computers and other high-tech kit is weakening, especially in America and Asia, as their economies slow. But there is more to it than this, and the answers offer intriguing clues about the future course of the economy.

The real puzzle is not weak exports, but strong imports. The official reason for such buoyant imports is higher oil prices. Even allowing for rising energy costs, however, imports have been growing at an annual rate of more than 10% since last summer, when exports first began to soften. And, despite the recent gloom about Japan's economy, import growth seems to be accelerating. In January, for instance, exports rose by 2.9%, compared with the previous year. Imports, on the other hand, were up by 24.8%.



In fact, imports have been robust since the end of 1998. Then, it seemed that Japan's exporters were about to help the country out of recession. America's IT-powered economy was sucking in the sort of high-tech goods that big Japanese firms specialise in making. With a recession at home, Japan had plenty of spare capacity to meet overseas demand. Yet exports never quite recovered. In each of the past three years, growth in net exports has been at or close to zero.

There are two possible explanations. The first is that the Bank of Japan has kept monetary policy too tight. This has pushed up the yen beyond any sensible value, boosting imports and depressing exports.

The second is that consumers have played a bigger role in Japan's recovery than official figures let on, with strong demand at home sucking in imports. Most measures of household spending suggest that consumers have done almost nothing to help the latest recovery. All the recent growth in retail sales, for instance, has put sales back merely to where they were at the start of 1999. The government's GDP figures tell a similar tale. Everybody agrees on the reason. Consumers worry about their jobs, their pensions, their government's incompetence, public debts, private debts, rising crime, a falling birth rate, their children's education and their parents' health care. Even this spring's cherry blossoms, the *Nikkei* newspaper lamented this week, seem "faint and spiritless".

Things may not be quite so hopeless, after all. Japan's weaker companies and its banks still look a mess. But its better firms are restructuring themselves back to health, sometimes with foreign help. Bits of the economy, such as the mobile-telecoms industry and some other high-tech areas, continue to prosper. Traditional retailers, like Japan's stuffy department stores, are having an awful time. But "cheap chic" outlets, like Uniqlo, which imports clothes from China, are cleaning up in the high streets.

Falling prices may discourage people from opening their wallets, but rock-bottom prices also encourage spending. Japanese manufacturers are making less at home and more abroad, especially in China (Toshiba has just announced that it is shifting to China all production of television sets for the Japan market). Japanese shoppers are at last being treated to some serious bargains. Perhaps household spending has been rising. Although demand-side figures (measuring consumption) show flat spending, supply-side statistics (measuring production) point to healthy growth. Since September 1999, for example, domestic shipments of consumer goods have risen by over 6%.

If real, this would have welcome consequences. A worry at the moment is that the world is about to be swamped with savings, with a bad recession following swiftly behind. America's spendthrift households might react to falling share prices by sharply raising their savings. And the savings glut might rise if Japan exports more of its own savings. This might happen because the government spends less, in an

effort to repair Japan's awful public finances, or because firms trim their investment plans.

On the face of it, the central bank's latest policy change should improve this bleak picture. On March 19th, the Bank at last promised to loosen policy by printing more money. If this succeeds in stimulating demand, Japanese saving will fall and the current-account surplus in due course will narrow. (In the short term, however, most of the effect will be masked by a cheaper yen.) Perhaps demand in Japan is already stronger than the figures suggest. If so, regardless of the new policy, imports could continue to grow quickly, the current-account surplus would moderate—and at least some of the flood of Japanese savings for which the world is bracing itself would stay at home. Here's hoping.

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Asian corporate governance

Korean murk

Mar 29th 2001 | SEOUL
From The Economist print edition

FOR all the salutary shock of Asia's financial crisis, South Korean companies can still cook their books. After the crisis hit South Korea in 1997, the government watchdog for accounting standards tightened up the existing lax rules, but there is still a long way to go. Over the past three years, one in every three companies the watchdog has selected at random turns out to have violated the rules. A study recently published by PricewaterhouseCoopers, an international accounting firm, finds that South Korea has the most opaque standards of accounting and corporate governance of the 35 countries it surveyed.

AP

Kim likes sunshine, but not at home

Opacity may have long been evident, but its effects can still shock. In July 1999, when Daewoo, an industrial giant, collapsed with debts of $80 billion, everybody was taken by surprise. At the end of 1998 it had hugely inflated assets and hidden debts that totalled some $34 billion. Against the inflated assets, the conglomerate borrowed about $7.5 billion from banks, while $20 billion was illegally channelled to a secret account in London. Or so claims the state prosecution agency. Now 27 people have been charged, including former senior managers of Daewoo and its auditors. Daewoo's founder, Kim Woo Choong, remains in hiding, after fleeing abroad.

Alarmed by the Daewoo collapse, the national assembly last month passed a law promising harsh punishment to accountants who fail in their duties. Under the law, which takes effect on April 1st, the finance minister can fine firms up to 100m won ($380,000), and individuals up to 50m won if they fail to discover that the books they are auditing have been cooked. Accountants also face criminal charges and, if convicted, up to three years in prison.

Such severe punishments may not, however, swiftly bring an end to creative accounting at South Korean companies. For a start, the accounting rules that the government introduced in the wake of the financial crisis still fall far short of international standards. For instance, South Korean companies can count as assets payments that are not due for a year or more.

Another problem is a shortage of qualified auditors. There are about 8,000 companies, including all of South Korea's listed firms, that are required by law to produce financial statements audited by independent accountants. Although some 4,000 accountants are certified to audit financial statements, most of these are tax specialists. Moreover, since almost all companies close their books at the same time, at the end of the calendar year, that creates a sudden increase in the workload.

One way to discourage companies from creative accounting is to introduce a law that would allow minority shareholders to file class-action suits. That is a cause championed by Ha Seung Soo of the People's Solidarity for Participatory Democracy, a civic group that campaigns for the rights of minority shareholders. The finance ministry plans to draft a law which, if passed, would make it possible to bring suits against companies with assets of more than 2 trillion won. Mr Ha points out that only a dozen or so firms would be affected.

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European interest rates

On hold

Mar 29th 2001 | FRANKFURT
From The Economist print edition

AP

Duisenberg didn't

AFTER a will-they, won't-they week, they didn't. Although quite a few commentators had mused that the European Central Bank (ECB) might cut euro-area interest rates on March 29th, the ECB kept rates at 4.75%. However, most economists think that rates will fall soon, probably on April 11th, when the ECB meets next.

Like the bank itself, the art of working out what the ECB will do next is still in its infancy, despite the bank's best efforts at conveying a clarity of purpose. Its president, Wim Duisenberg, holds monthly press conferences. The bank has an inflation target. It has set out the theory on which its policy is based. Contrast this with America's Federal Reserve, which unlike the ECB has no inflation target and no clear policy framework (or at any rate, none that has been published). The oracular word of its chairman, Alan Greenspan, is all that matters. Yet financial markets seem, most of the time, to understand what the Fed is doing.

Nobody at the ECB has Mr Greenspan's clout. So ECB-watchers pay attention to several members of the bank's governing council, which consists of the central-bank governors of the 12 euro-area countries plus a six-strong executive board (over which Mr Duisenberg presides). In the past week the scrutiny has been especially close. The American and Japanese economies are in trouble, prompting their central banks to cut rates; and although growth in the euro area still looks healthy, there have been some signs of a slowdown there too, notably in Germany.

So when Otmar Issing, the ECB's chief economist, told the *Wall Street Journal Europe* that "risks to growth have certainly increased to the downside", this was taken by some as a sign of an imminent rate cut. Ditto, when Jean-Claude Trichet, governor of the Bank of France, said that the ECB was much less worried about inflation than it had been a month or so ago. When Ernst Welteke, head of the Bundesbank, cautioned against haste in judging the situation, however, that counted against a rate cut.

Because all 18 opinions count, deconstruction of every utterance is perhaps inevitable. But there might be less need for it if the uncertain connection between economic data and monetary policy were made a little clearer. To be fair to the ECB, it has tried hard. It aims to keep inflation between zero and 2% by concentrating on two "pillars": the rate of growth of the money supply, and other factors that affect inflation.

Still, there is clearly room for improvement. A thoughtful study* published this week by the Centre for Economic Policy Research in London suggests treating the money supply as merely one of several indicators of inflationary pressure, rather than according it a special status. Anyway, the authors argue, the ECB acts as if this were already the rule. The monetary "pillar" serves only to confuse. In that case, why not align theory with practice?

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* "Defining a Macroeconomic Framework for the Euro Area: Monitoring the European Central Bank 3", by Alberto Alesina, Olivier Blanchard, Jordi Gali, Francesco Giavazzi and Harald Uhlig. Centre for Economic Policy Research, London

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Film insurance

A fine romance

Mar 29th 2001
From The Economist print edition

Underwriting film productions has been an embarrassment for insurers

WITH attention focused on the Oscars and their oh-so-stunned winners, spare a little thought for the impoverished financiers of the nine Hollywood films out of ten that lose money. In particular, have pity on American and European insurance companies, which thought a while ago that they were charging beautifully fat premiums to insure film productions—but now realise they have been mugged. Almost all of the big insurers that jumped into this market in the past decade have now bailed out.

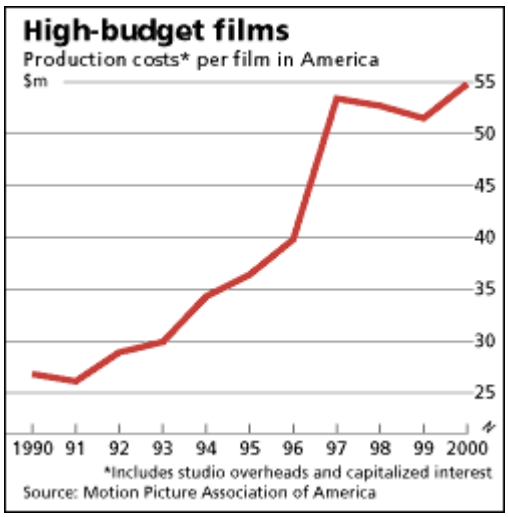
Insurers liked it even less than filmgoers

A few years ago, Hollywood's film makers thought that they had found, in insurance companies, the ideal partners to co-finance films. Insurers make a living from risk, and the industry could offer plenty of that. Insurers also faced falling premiums in their traditional insurance markets, while film makers were prepared to pay in premiums almost any sum they demanded.

The big companies in the industry—American Insurance Group (AIG), Axa Reinsurance, the reinsurance arm of France's biggest insurer, and XL Capital, based in Bermuda—duly threw themselves into insurance-backed "gap finance". The idea seemed simple enough: insurers underwrote bank loans that formed part of a film's financing package, guaranteeing to compensate for any shortfall between the sum insured and the money that the film made. Reinsurers, in turn, insured "direct" insurers. The rest of the finance package consisted of capital put up by studios, as well as other loans that were not insured.

In the event, film-insurance deals were more favourable to Hollywood than insurance executives at first realised. The film makers enjoyed a financial safety net, thereby becoming a better bet for potential lenders. But many policies were written for one film at a time—so the risk of failure, resulting in large claims, was high. In addition, insurers often underwrote a foolishly large percentage (sometimes as much as half) of a film's production budget. That was a disincentive for producers to watch what they spent either on the film or on themselves.

Moral hazard is a feature of all insurance policies: the insured's behaviour may be conditioned by the knowledge of the costs that insurers will bear. Still, the interests of policyholder and insurer are usually somewhat aligned. Even if a traveller has taken out travel insurance, the policyholder does not actively want his wallet to be stolen. A film producer doesn't mind, because it's not his wallet.



The best-known of the insurance deals is the one that started the whole film-insurance fad. In 1995 Mike Medavoy, a veteran of Hollywood, was looking for cash for Phoenix Pictures, his new production company. It wanted financing for five films, including "The People vs. Larry Flynt", and "The Mirror Has Two Faces". Chase Manhattan agreed to act as lead bank for a loan syndicate, and a group of insurers underwrote part of the financing package. The venture was launched with great fanfare, but "Larry Flynt", a film about a pornographer, was a box-office bust. "The Mirror" did well enough at the box office at first, and even promised to make a profit—until Barbra Streisand, its star, demanded that lavish sums be spent on promotion. The film then lost money, as did the other three films in the Phoenix package.

A lawsuit over the whole fiasco is now under way in London. It is being closely watched by film insurers. Unwilling to compensate for the production company's tens of millions of dollars in losses, eight insurance firms, including HIH Casualty & General Insurance, from Australia, and Lexington Insurance, a subsidiary of AIG, are suing Chase and Heath Insurance Broking, the broker that placed the Phoenix policies. The plaintiffs claim that they had relied on the "principle of utmost good faith" (which in English law places some onus on the insurance broker), but had been misled by misrepresentation and non-disclosure. The defendants say the principle does not apply in America and that the insurers cannot unilaterally void their contracts.

Several insurers involved in similar deals with large losses (and even two insurance firms in the Phoenix deal that refused to go to court) have simply cut their losses and run. Axa Reinsurance has bailed out of its film-finance ventures and fired the executive in charge. The company is still involved in a lawsuit filed by George Litto, a film producer, for revoking two insurance contracts for five films.

An undeterred few, XL Capital among them, still believe that film insurance can work, if the deals are structured differently. The trick (why was it not evident all along?) is to spread the risk by insuring packages of at least eight films, cross-collateralising them. As importantly, they believe, only about a third of a film's budget ought to be insured, to cut the risk of moral hazard. Finally, insurers should stall for much longer before they pay claims. Some films make money only after several years, through sales of videos and film rights abroad. But most insurers will never come back. As *Variety*, Hollywood's house journal, waving the insurers good-bye, summed it up: "They came to Hollywood, fell in love with the glitz, threw more than a billion dollars at it and got burned."

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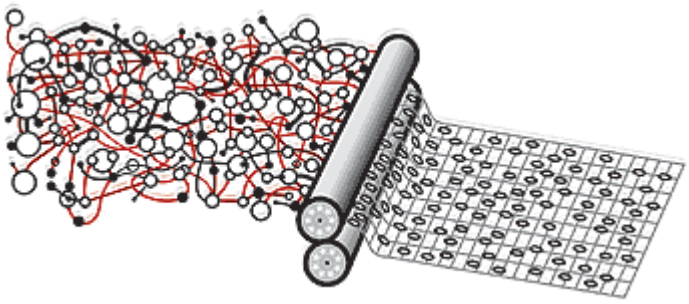
Economics focus

Not so harmonious

Mar 29th 2001
From The Economist print edition



After looking at how taxes are set within the European Union, two researchers conclude that having one rate for all countries could make everyone worse off

ALTHOUGH tax was one of the hot topics at last year's EU summit in Lisbon, it barely merited lip service at the summit in Stockholm last weekend. The European Commission's efforts to stamp out "unfair" tax competition had run into too much opposition, notably from Britain. But it turns out that this might have been for the best. A recent research paper* suggests that imposing common taxes on capital income would do all of the EU's member countries more harm than good.

The rationale for tax harmonisation is grounded in economic theory. If an entrepreneur is trying to decide where to start a company, the tax rate he pays on capital income will be one of the factors he has to consider. It might influence his return on investment, even though it usually has little or nothing to do with how well the local business environment would otherwise suit his plans.

In a broad economic grouping such as the EU, so the traditional argument goes, allowing tax rates to vary across jurisdictions would distort the entrepreneur's choice of location. It would also encourage countries to compete for capital by lowering rates. Such a "race to the bottom", the argument continues, would result in tax rates that are too low from a "social" standpoint. Imposing equal rates would pre-empt this race and ensure that the entrepreneur's decision rests only upon factors that are central to his company's prospects.

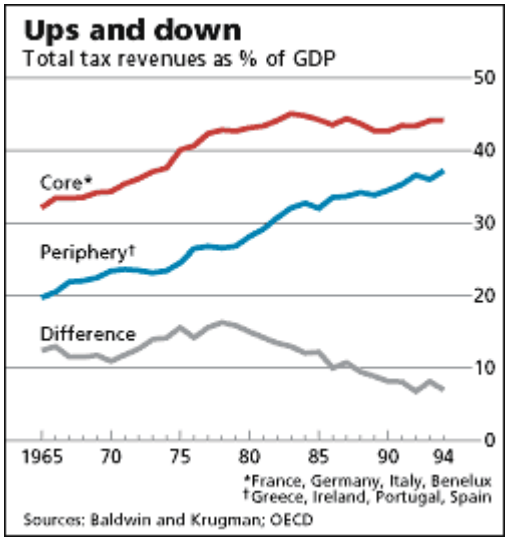
It all sounds logical enough, but this argument hangs on some weighty assumptions. These include the notion that entrepreneurs care little about what other capital is around in the area where they are looking to invest. Richard Baldwin of the University of Geneva and Paul Krugman of Princeton challenge this assumption. They suggest that capital benefits from "agglomeration": in other words, a cluster of capital in the same place is more useful to all concerned than the sum of its dispersed parts. Forming supply chains, obtaining services, strengthening infrastructure and sharing knowledge all become easier when companies bunch together.

The forces that encourage agglomeration, the authors argue, should be strongest when economies are somewhat, but not completely, integrated. Countries must be integrated enough to make agglomeration feasible, but not so integrated that it becomes unnecessary. The EU sits exactly in this middle ground.

To understand how agglomeration might have affected tax competition in the EU, the authors split selected member countries into two groups: the core and the periphery. The core is made up of France, Germany, Italy and Benelux. These countries, the authors contend, are historical centres of economic hustle and bustle that can take advantage of agglomeration. But the periphery—Greece, Ireland, Portugal and Spain—cannot. Because of its agglomeration benefits, the core could have higher tax rates than the periphery, without having to worry that capital might flee.

Average tax rates were indeed 12 percentage points higher in the

core than in the periphery in 1965 (see chart), just eight years after the Treaty of Rome. Integration then deepened and capital became more mobile, yet countries did not race to the bottom. Quite the reverse: tax rates rose in both the core and the periphery. The gap between their average tax rates also grew. It peaked at 16 percentage points in 1978, the year before the European Monetary System came into force. As integration deepened over the following two decades, the tax gap narrowed steadily. By the 1990s, it had shrunk to seven percentage points.



Given the ever closer economic integration of the EU, the trend in tax differences—first up, then down—supports the authors' hypothesis. The first wave of integration makes agglomeration feasible, so the tax gap can widen. The second wave begins to erode the benefits of agglomeration, and the tax gap shrinks accordingly; the core starts to compete as its advantage over the periphery dwindles.

One size does not fit all

If policymakers accept the benefits of agglomeration, one big argument for tax harmonisation falls apart. Choosing one rate for everybody would not change the location of capital, which would remain in the same clusters as before. What is more, if a harmonised rate were chosen that lay between the core and periphery averages, both groups would suffer. Countries on the periphery would be forced to raise rates without gaining any benefits in new capital. They would also lose their advantage in attracting those kinds of businesses that do not benefit from agglomeration. Countries in the European Union's core, whose rates might already be depressed by tax competition with each other, would have to cut taxes (and public spending) even further.

The story does not end there, however. It may be that growth in information technology, falling transport costs and continuing economic integration will eventually do away with the benefits of agglomeration, not just in Europe, but worldwide. Come the moment when capital becomes fully mobile around the world, tax harmonisation may have its day. Something similar has already happened to labour, according to Mr Baldwin's most recent research. As high-income workers have become more mobile inside the EU, top tax rates for personal income have converged. There may yet be hope for tax policy made in Brussels.

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*"Agglomeration, Integration and Tax Harmonization". By Richard Baldwin and Paul Krugman.CEPRDiscussion Paper Series, No. 2630.

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The big one?

Mar 29th 2001 | FRANKFURT
From The Economist print edition

THERE have been false starts before on *Finanzplatz Deutschland*. This time, has Allianz, Germany's biggest insurer, found the distributor it wants for its life policies and pension plans? And is Dresdner Bank, Germany's third-biggest, really going to conclude a merger, after last year's failed attempts with its Frankfurt rivals, Deutsche Bank and Commerzbank? As *The Economist* went to press, word was that Allianz was planning to take over Dresdner, of which it already owns 21%.

Watching the fruitless merger dances among the Frankfurt banks last year, Allianz had hoped to get the distribution channel it wanted; it also talked to Deutsche Bank's retail arm. If the Dresdner plan now goes ahead, Germany's retail financial markets will take a big stride towards *Allfinanz*: the provision of banking, insurance and asset management by single institutions. As well as buying Dresdner, Allianz would pass on its 17% stake in HypoVereinsbank (HVB), Germany's second-biggest bank, to Munich Re, another big insurer, which already holds more than 5% of HVB. Munich Re and Allianz each own a quarter of the other, and their offices are in the same street in Munich. Who said Frankfurt was Germany's financial capital?

For Dresdner, the main interest is that Allianz may swallow it more or less whole. Dresdner is proud of its investment-banking business: arguments over the latter's future led to the scrapping of the deal with Deutsche, and since then it has bought Wasserstein Perella, an American firm, to bring in new expertise. Dresdner Kleinwort Wasserstein, as the investment bank is now called, has an enviable client list, which Allianz might covet. More details are expected to be sorted out in the next few days: a necessity, with Dresdner's results for 2000, and a press conference, due on April 5th.

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Whodunnit?

Mar 29th 2001
From The Economist print edition

Forensic computing studies the anatomy of computer crime

IN AUGUST 1986, an astronomer at the University of California, Berkeley, noticed a 75-cent discrepancy in the accounts for a computer in his laboratory. This was an intriguing problem for Clifford Stoll. When he investigated, he found that somebody had broken into his computer and used it for a short time without permission—just enough to unbalance the accounts.

In what has since become the first, legendary, tale of computer forensics, Dr Stoll spent a year of meticulous work tracking and recording the hacker's movements. He watched him use the Berkeley computer to attack military computers in Alabama, California and inside the Pentagon. It turned out that the intruder, a German hacker called Markus Hess, was selling American military secrets to the Russians. Mr Hess was caught thanks largely to Dr Stoll's diligent pursuit of him.

Fifteen years later, computer forensics is a growing commercial and legal activity. It even has its own academic literature. Computer forensics refers to the set of tools and techniques that is needed to find, preserve and analyse fragile digital evidence, which is susceptible to alteration and erasure at many levels. Its practitioners gather these data, and create a so-called "audit trail" for criminal prosecutions. They search for information which may be encrypted or hidden in graphics files, unallocated disk-space and even random memory dumps known as file slack. Most cunningly of all, they set up "honeypot" computers that lure malicious hackers (as the branch of the hacking fraternity that aims to damage the machines it gains access to is known) into giving themselves, and their techniques, away.

The most ambitious public example of this is the Honeynet Project, a network of honeypot computers that was set up a couple of years ago by Lance Spitzer of Sun Microsystems. Last week, the Honeynet Project reached the conclusion of its "Forensic Challenge", a sort of digital version of the game "Cluedo" ("Clue", to Americans), which attempts to discover that, for example, "Miss Hackwell" did it to the Linux with the Ramen worm. The challenge showed that analysing traces of an attack by malicious hackers is not as easy as it sounds.

David Dittrich, the co-ordinator of the Forensic Challenge (and a security engineer at the University of Washington, in Seattle), offered contestants a snapshot of one of Honeynet's hacked systems. The challenge for the teams was to see who could find out most about what had happened.

Each of the 13 submissions took a slightly different approach, and nearly every entrant found at least one thing that the others had not. But, even though many entrants had more than six years' experience in security or systems administration, only three teams identified the information that showed who was probably behind the attack.

The Honeynet Project is run by a group of 30 computer-security engineers, some of whom, says Mr Dittrich, have "slightly chequered" pasts. But it has proved its worth. Last year, for example, it successfully tracked down a group of malicious Pakistani hackers who were trying to use the network to attack websites across India.

That attempt highlights one common reason that malicious hackers attack computers. They are looking for a way of launching a veiled attack on a third party. But what the project also found is that most attempts to do this are not, actually, very sophisticated. There are legions of low-tech "script-kiddies" who are using automated software tools to find and take over any vulnerable computers on the Internet. Well-known and easily available programs, such as NetBus, Back Orifice and Sub 7, allow a malicious hacker to gain full control of that machine's operating system. Last year, script-kiddies used a similar technique to launch so-called distributed denial-of-service attacks on the websites of Amazon, eBay,

Yahoo! and CNN, bombarding them with junk until the volume of traffic paralysed them.

Hack to the future

This sort of attack is likely to become more frequent. The Internet is, in any case, set up in a way that makes it difficult for computers to distinguish friend from foe. And the spread of “always on” connections such as cable modems and digital subscriber lines mean that lots of computers with poor security are permanently linked to it. As computers get cheaper, many owners have come to view them as little more than appliances like televisions, and are unconcerned about protecting them from hackers. Because of this, sophisticated break-in techniques are no longer necessary.

Security experts therefore reckon that the automated tools used by script-kiddies are an important threat. One such tool, the Ramen worm, attacks computers that run a particular version of the Linux operating system. Everything needed for an attack is bundled together in this program. It can scan computers for vulnerabilities in their security systems, break through any gap it finds, install itself on its new host, and propagate itself to other machines. Ramen itself is not that serious a problem, as it is easy to detect and shut down. But more sophisticated programs, such as Lion, are now causing serious trouble, and worse could be to come.

The only bright spot on the horizon is the development of automated investigation tools to counter the automatic hacking tools. An early example of this is the Coroners Toolkit (TCT), which speeds up and standardises the process of making a digital-forensic examination. TCT makes copies of configuration files (which show how the computer it is checking is set up), log files (which record what the computer has been up to), process-information files (which indicate how the computer has actually done the things it has been up to), network-state files (the conversations that the computer has been having with other computers), and other critical data necessary to make the evaluation. It also makes it easier to find the files that have been created, accessed and modified during an attack, and it is able to reconstruct deleted files from raw data found in various hidden parts of a computer’s hard disk, such as unallocated space and file slack.

Despite these burgeoning countermeasures there is, of course, no such thing as perfect security. So is it worth setting traps, hiring consultants and patching holes, if there is nothing on your system worth stealing or that is costly to repair? It might be, for there is also the thorny issue of liability. The courts have yet to decide who is liable if a computer system with lax security is used to launch a denial-of-service attack, but a number of lawsuits are pending.

As far as the criminal law is concerned, computer forensics has come a long way. But the field is still far from the position in which malicious hackers are, like ordinary criminals, caught and prosecuted often enough to provide some sort of deterrent. Which is a pity, for few, these days, do as little as 75 cents’ worth of damage.

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Plasma lasers

A cut above the rest

Mar 29th 2001 | BRIGHTON
From The Economist print edition

Laser-quality work, at a fraction of the price

WHETHER they are building ships or chips, construction industries need precise tools to slice through the materials of their trade. These days, that precision is often provided by laser beams and plasma jets. Both are good at cutting, but both have disadvantages. Lasers use a huge amount of power and cannot penetrate reflective surfaces. Plasma (hot, ionised gas) consumes less power, but it can slice neither as neatly nor as finely as a laser. At a recent meeting of Britain's Institute of Physics, in Brighton, however, Ahmed Al-Shamma'a, an engineer at Liverpool University, and his colleagues described new techniques for dealing with both shortcomings.

At the moment, a plasma jet is created by passing an electric current back and forth between two electrodes to "ignite" a gas—ripping electrons from their parent atoms to produce ions. Unfortunately, this requires a "return" current to complete the circuit, and this has to run through the material that is being cut. That restricts plasma-cutting to materials that conduct electricity. It also limits the temperature of the plasma to what is generated when the electrons part company with the atomic nucleus. That requires a gas in which this separation takes place only at high temperatures. In practice this means helium, which is expensive.

Dr Al-Shamma'a and his colleagues have managed to get round this by using microwaves to ignite the plasma. Running the microwaves down a gas-filled tube excites the gas and creates an electrically neutral jet of plasma that, when funnelled through a nozzle, can cut ceramics, glass-fibre and even cloth. Because microwaves can heat the plasma above its ignition temperature, such cheap gases as argon or even air can be used.

That does not, however, deal with the problem of plasma's relatively crude surgery. Plasma-jet cuts are about 1mm wide, which is fine for metal-bashing but no good for silicon chips. Jim Lucas, a colleague of Dr Al-Shamma'a, has a solution for this as well. By combining microwave plasma with a weak laser, he and his team can make cuts that are a mere five hundredths of a millimetre across, fine enough for microelectronics. Moreover, they can slice through just about anything, because the reflectivity of materials such as aluminium and silicon is reduced by the plasma.

Best of all, the team can cut at a fraction of the cost of an unassisted laser. Unlike lasers, which spend about 90% of their effort on heating the material (a necessary part of the process), and only 10% on the cutting, the combined system does the heating cheaply and efficiently using the plasma. Expensive laser-generated energy is employed only for the actual cutting. The result is a cut that is indistinguishable from that of an unassisted laser—at a twentieth of the cost.

The possibilities do not stop there. Dr Al-Shamma'a reckons that other applications for microwaved plasma include acting as a catalyst during the combustion of fuel in car engines, and melting glass around nuclear waste, thus enveloping it in a shield so dense that it can be buried safely. Clearly the subject is not just hot air.

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Origami

Folded space

Mar 29th 2001 | MONTEREY
From The Economist print edition

ORIGAMI may be a delightful art form, but is it any use? At the third Origami Science, Maths and Education Conference, held earlier this month in Monterey, California, Roderick Hyde and Sham Dixit showed one way that it might be. These physicists, who work at the Lawrence Livermore National Laboratory in California, explained how they are trying to persuade NASA, America's space agency, to use their design for a foldable lens in a giant space telescope.

Such a telescope would have a lens (or, in a competing design, a mirror) with a diameter of 100 metres. This would give it a light-collecting area 100 times bigger than the largest telescopes on earth, so it would have an unparalleled ability to see faint objects. The instrument would also have a resolving power (the ability to separate objects that look close together in the sky) that can be achieved with earth-bound telescopes only by combining the light from two or more of them, using fancy computer software.

Such a space-going giant would be one of a new breed, which NASA calls "gossamer spacecraft". Light materials and innovative construction, it hopes, would bring the advantages of size into orbit, while leaving the expense of weight behind. A "gossamer space telescope" should be able to see the planets around nearby stars.

Should it, though, have a lens or a mirror? On earth, the largest telescopes use mirrors, because a lens can be supported only at its edges, and so will sag if it gets too large. In the weightlessness of space, that drawback is gone. A conventional lens 100 metres across would, of course, be quite thick in the middle and thus heavy and expensive to lift into space. But Dr Hyde and Dr Dixit have something else in mind: a Fresnel lens.

This sort of lens is a flat sheet of transparent material, on which concentric grooves a thousandth of a millimetre wide have been etched. Fresnel lenses of a coarser kind are quite common. They are used in overhead projectors and in the rear windscreens of minivans to improve the driver's view of objects behind him.

If light passes through the grooves of a Fresnel lens, the original light source is replaced by a large number of concentric sources of light. At a distance, the light waves from these sources cancel each other in some places and reinforce each other in others. The net effect is that the light is bent in the same way that it would have been by an ordinary lens. In the case of a space telescope, such a lens would float freely in space, with a second satellite trailing at several kilometres' distance to intercept the image formed and broadcast it back to earth.

Once such a lens is out in space, handling it is easy, according to Dr Dixit. You just make it spin; centrifugal force will do the rest. Furthermore (and this is one of the advantages a lens has over a mirror), the image will not be degraded much if the lens suffers a shallow ripple here or there. The real problem is how to get such a big lens into a small enough package to put in a space shuttle, unfold it neatly when it is in orbit, and fold it up again should it need to come back to earth for maintenance.

That is where origami comes to the rescue. Not any old fold will work. If you fold the lens as you would a newspaper, you end up with some creases that are really sharp, and some that are much smoother because they run around several layers of previously folded material. Dr Dixit prefers all his creases sharp, because that way they take up less of the area of the lens, leaving more material to do the light-gathering and bending.

One way to accomplish this is with the Miura map-folding technique, named after Koryo Miura of the University of Tokyo, who was also present at the conference. He invented the technique in 1977 because he found the way that maps were previously packaged made them awkward to spread out and refold. That invention notwithstanding, travellers have yet to see any improvement in map-folding. But this, Dr Miura told the conference, may now change. A way has at last been found to teach his easy way of

folding to machines, for which—paradoxically—it used to seem very difficult. In the meantime, space scientists have already used the Miura map fold to package and deploy solar panels. And the gossamer space telescope promises to be the largest Miura map of them all.

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Seven-year twitch

Mar 29th 2001
From The Economist print edition

WHEN Cole Porter wrote about birds, bees and educated fleas, he neglected to mention that, besides falling in love, animals also get divorced. In most species, of course, neither sex hangs around long enough to light even a metaphorical post-coital cigarette. But even in those where both partners help to raise their young to adulthood, one may still decide to leave the other holding the baby.

To investigate what causes who to leave whom, and when, a group of animal behaviourists and mathematicians has been studying a shore-dwelling bird called the Kentish plover. In this species, either parent may decide to abandon its partner after incubation of the eggs.

The reason for this was revealed by Andras Kosztolanyi of the University of Debrecen, in Hungary, who manipulated pairs of birds by removing one partner. It turns out that desertion during incubation is likely to result in the demise of the unhatched offspring. Once the eggs are hatched, however, a lone parent does almost as well at raising the chicks as both do together. That means there is little genetic cost to the parent that deserts first.

Little, but not none. So it is worth leaving only if you can find a second mate, and then raise a second brood. Whether a bird deserts or stays depends on how it rates its chances elsewhere.

In the case of plovers it is, more often than not, the female who abandons her mate and offspring. The most likely reason for this is that male plovers outnumber females. The consequence, as Tamas Szekely of the University of Bath, in Britain, discovered when he experimentally “divorced” some birds by removing their clutch and their partners, is that males spend longer looking for a new mate than females do. Dr Szekely says that males can be seen trying in vain to attract new mates for over a month, while free females are snapped up almost immediately.

That the birds are carefully sizing up their chances before deciding to divorce their partners explains some other things, too. Towards the end of the plover breeding season, the rate of female divorce declines. This is probably because, as there is no time to raise a second family, the female decides her efforts are better spent raising her current brood to adulthood. And there is also the question of the reaction of the partner to desertion. For instance, if a male’s response to a female’s desertion is to abandon the brood as well, then her best strategy may be to stay after all.

When economists are faced with analysing this sort of decision, they reach for a branch of mathematics called game theory—and so, now, do zoologists. In fact, game theory has scored some of its greatest successes in zoology, most notably by developing the idea of an evolutionarily stable strategy. This is a type of behaviour that, while not necessarily producing the best imaginable result, cannot be bettered if everybody else in a group is employing it.

In a population in which all males and females divorce their partners, the best strategy for an individual bird is also divorce, because every bird has a high chance of remating. But in a population in which all the individuals are faithful, the best strategy for an individual is to stay with its mate, since few other mates will be available. Divorce, then, is a delicate business. Despite the wishes of the great lyricists of the world, it seems that—at least in plovers—love, marriage and divorce may not be emotional decisions but, rather, finely tuned economic ones.

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The man who knew enough

Mar 29th 2001
From The Economist print edition

A proper biography of a thinker as influential as Friedrich Hayek ought to explain for us the man, his politics and how he changed how others thought

FRIEDRICH HAYEK: A BIOGRAPHY
By Alan Ebenstein

Palgrave; 448 pages; $29.95.

Buy it at
Amazon.com
Amazon.co.uk

Hayek had a system

OF THE two most famous economists of the 20th century, Maynard Keynes all but completely overshadowed Friedrich Hayek in his lifetime; and since his death, he has been commemorated by a biographical masterpiece—Robert Skidelsky's three-volume *magnum opus.* Set beside it, Alan Ebenstein's thin and two-dimensional life of Hayek risks suffering the same fate as its hero in the 1930s. The comparison is in one sense unfair. Lord Skidelsky started his life over 30 years after Keynes had died, with virtually complete access to all his papers and correspondence. Mr Ebenstein has written his within less than ten years of Hayek's departure, when no more than half a scholarly edition of his collected works has been published and—above all—without being able to draw on any private letters or materials whatever. These are crippling limitations. Within them, he has done a conscientious and fair-minded job, based largely on interviews Hayek gave to others and recollections of survivors who knew him. The basic facts of Hayek's career are clearly set out, and his ideas modestly and not uncritically expounded.

But of a figure who looms as large as Hayek—by the end of the century matching Keynes for influence at very least—treatment is required on an altogether different scale. Mr Ebenstein's book falls short on all three of the indispensable conditions of an adequate biography of such a man. It lacks any pretension to depth as a psychological portrait. Hayek, who had a wider intellectual range than Keynes, was much narrower as a person. But he was not simply a stiff-necked work-horse, capable of devotion only to his ideas. Jilted by the cousin with whom he was in love, he married a look-alike, lived with her for 20 years, then ran away with his first flame, to the outrage of Lionel Robbins and sundry colleagues at the London School of Economics, to get a divorce in Arkansas. Later he suffered acute, even suicidal depressions, which he may have feared were hereditary. In Milton Friedman's words, he was a "complicated character". Mr Ebenstein sheds little light on this inner turmoil.

Nor does his book offer any real historical setting for Hayek's career. Although often naive in his political judgments, Hayek was intensely concerned with public issues throughout his life. Yet we learn virtually nothing of the development of his views on the affairs of the day. What did he make, for example, of the Dollfuss dictatorship in Austria, where his teacher Ludwig von Mises served its clerical predecessor under Monsignor Seipel, and where Hayek himself planned to return in the 1930s? Mr Ebenstein never even mentions these conservative authoritarian regimes of the period. In later years, he records Hayek's efforts to secure South Tyrol for Austria once again; his organisation of the Mont Pelerin Society, an influential post-war group of free-market intellectuals; his recommendation that West Germany, France and Britain sue for entry as states into the United States; his reception in Verwoerd's South Africa and his admiration for General Pinochet's achievements in Chile; his wish that Iran be bombed in 1979 and Argentina in 1982. Homages from Barry Goldwater, Margaret Thatcher, Ronald Reagan and Yegor Gaidar roll past (the only discordant note comes from Ayn Rand, once Alan Greenspan's muse: "As an example of our most pernicious enemy, I would name Hayek. That one is real poison."; or again: "The kind who do more good to the communist cause than ours"). Yet no coherent picture of Hayek's political commitments ever emerges, still less their relation to such important works as "The Constitution of

Liberty” (1960).

Above all, however, an adequate biography of a thinker must address the nature of his intellectual achievement. Hayek was not much of a technical economist, as Keynes and Mr Friedman in their different ways understood. But he was a social philosopher of rare system and power. The extent to which his key ideas were original will only become clear once their background in the Austrian school of economic thinking and adjacent areas of late Habsburg thought is fully reconstructed. It is clear that the central notion of a “spontaneous order”, the keystone of his theoretical structure, came from Carl Menger, and his critique of socialist planning owed everything to Mises. But Hayek brought to this heritage one crucial further idea—the market as a solution to the problem of co-ordinating the division of knowledge—and a capacity for systematisation in his thinking that no other Austrian, indeed no other contemporary western economic theorist possessed.

The great theme of his remarkable explorations in intellectual history is the danger of all constructivism, the belief that we can deliberately design social arrangements which will be better than those we unwittingly hit upon. Paradoxically, however, the drive of Hayek’s own work is itself characteristically that of a rationalist construction. Admiring David Hume and detesting Auguste Comte, his genius was to marry the sceptical insights of the one to more than a touch of the compulsive rigour of the other.

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France in 1940

Not the French

Mar 29th 2001
From The Economist print edition

STRANGE VICTORY: HITLER'S CONQUEST OF FRANCE
By Ernest R. May

Hill & Wang; 602 pages; $30.
I.B. Tauris; £17.95

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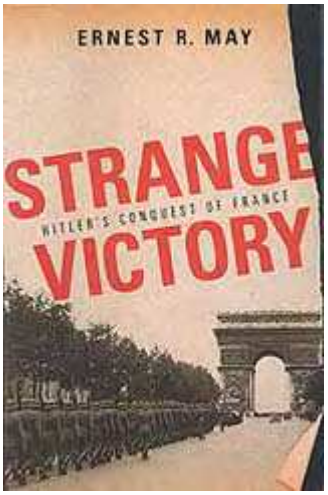

FOR decades historians inside and outside France assumed that defeat in 1940 was a direct consequence of the decadence of French society and the defensive conservatism of its military leaders. The moral decline of France fitted with British prejudices about the unreliable partner; the image helped French politicians after 1945, who wanted to discredit the old France of pacifism, wartime collaboration and defeatism. De Gaulle epitomised the renaissance of the Gallic spirit. If he had led French armies in 1940, so the myth goes, defeat by Germany might have been averted.

Little of this picture matches the France described by Ernest May in this important and challenging reassessment of what went wrong. Gone is French decadence, to be replaced by a revival of French popular morale and military firmness in the late 1930s. Gone is the feeble and conservative military establishment and the outworn arms and doctrines; in its place Mr May has found the most up-to-date technology, and much sensible thinking about how modern armies and air forces should be used. Gone, too, are any remaining illusions that Germany was massively armed in 1940, eager for battle with state-of-the-art armoured divisions and the cream of Nazified youth. German generals were almost united in their belief that France and Britain could not be defeated; German tanks, even the best were outmatched by French ones; much of the German rank and file was ordinary by the fighting standards of the day.

But this setting aside of the myths of 1940 leaves Mr May with a central puzzle to resolve. If France (with British help) was a match for Germany in the field, if French society girded itself for the contest in 1940, why was France defeated comprehensively in six weeks? The answer to this question is both simple and complex.The straightforward answer is that France was defeated in battle. History is littered with wars decided against the odds by luck, or better judgment or sounder intelligence or, as in this case, all three.

The complex answer lies precisely in issues of intelligence and sound judgment. French military intelligence was organisationally isolated and low-status. Secret agents found German forces massing for the push through the weakly defended Ardennes forest—the move that unhinged the French front—but the news was disregarded. The French believed that with effective British and Belgian assistance, the Maginot fortifications, economic superiority and top-class technology, they could hold the Germans on the flat plain of northern France. This was a profound misjudgment. British assistance represented only a fraction of the Empire's vast material and military resources. Belgium was constantly overestimated; the Maginot line worked only if the Ardennes gap (dismissed years earlier by Pétain as impassable by modern armies) was closed. French defeat was the product not of moral decline or spiritual *faiblesse*, but of simple incompetence and arrogance.

This will be unpleasant news in France. A war lost that should have been won is harder to stomach than a war lost through the overwhelming power of the enemy. Mr May's scholarly and highly readable account

will shatter a great many of the myths that surround 1940. The only questionable judgment lies in the comparison of military forces. It is true that the balance was on paper much more favourable to the Allies than had once been thought. The problem was that Britain did not exert its entire strength, while French forces were scattered throughout France and its African empire. The German gamble in Mr May's account looks less risky than it might have been, for they had Clausewitz on their side—concentration of forces, annihilation of the enemy. This worked in 1866 against Austria, in 1870 against France, and it almost worked in August 1914. 1940 might seem a strange victory, but it was no fluke.

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Climate and history

Blame El Niño

Mar 29th 2001
From The Economist print edition

LATE VICTORIAN HOLOCAUSTS: EL NINO FAMINES AND THE MAKING OF THE THIRD WORLD
By Mike Davis

Verso; 480 pages; $27 and £20

Buy it at
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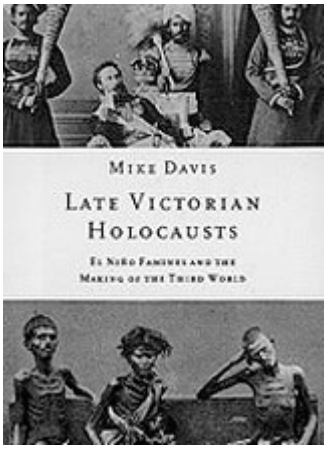

THE once suspect idea that ecological change and political upheaval can be closely linked is fast gaining new adherents. Mike Davis's is the first serious book-length attempt to establish links between the oscillations of Pacific currents and the revolutions of the early 20th century.

His is not, however, a study in climatic determinism. Quite the contrary. Mr Davis sets out to show that while El Niño caused terrible crises among what he calls "tropical humanity" in the late 19th and early 20th centuries, the magnitude of the ensuing famines and the scale of the deaths—which he estimates at perhaps 50m—can be blamed on western imperialism.

Most of the material relates to India, Brazil and China, which Mr Davis presents as cases respectively of imperial misrule, "informal" imperialism and victimisation by western hegemonists. Two conclusions are thoroughly demonstrated: first, the importance of the famines of the era has been underestimated in conventional historiography; secondly, in India, the indifference or incompetence of colonial rule gravely exacerbated the results. There are chilling accounts of vice-regal myopia and self-delusion, imperialist cant and humbug, and the consequences of what Mr Davis calls "a laisser-faire approach to famine".

The indictment of colonial maladministration is unanswerable. But Mr Davis gives hostages to fortune by advancing further claims which the evidence does not sustain, suggesting, for instance, that famine was deliberately engineered by the Raj. He claims that the failures of capitalism—the bad effects of commodity cycles and unequal trade, with their "winners" and "losers"—were little different from more obvious kinds of colonial violence: the charge here relying on the debatable view that competition is always coercive.

Mr Davis also argues that imperialism turned formerly prosperous areas into "the third world" by undermining the resource-bases of traditional peasant societies. The results were the "warehousing" of peasants for imperial purposes and "the modernisation of poverty". Despite ingenuity in argument and resourcefulness of language, the section is vitiated by inconsistencies. Mr Davis depicts oriental despots as benign and western satraps as a blight. He sees imperialism as a peculiarly white vice, whereas in reality it is universal. Western imperialism helped to contrive the great global shifts of initiative in modern history—the rise of the West and the stagnation or decline of the rest—but it is misleading to isolate it from the longer-term contexts in which it belongs.

After his hard work on climate, Mr Davis discounts its importance. Yet winds and currents, as he helps to show, shape environments and lace the world with routes of contact. The climates they create are systems in punctuated equilibrium, with sudden convulsions and periodicities we only dimly understand. Global history books usually have too much hot air and not enough wind. We need writers of Mr Davis's talent and commitment to match the history of climatic change to the human record of crimes, follies,

miseries and achievements. In this gripping, original, selectively valuable and patchily persuasive book he has at least made a start.

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An ocean in history

What a wait

Mar 29th 2001
From The Economist print edition

EUROPE'S "Rimland"—the Atlantic seaboard from Scandinavia to Andalusia—was the launchpad of the European miracle. Long-range empires and globe-girdling trade started from here. Yet the miracle took a puzzlingly long time to happen. Europe's Atlantic-side peoples stuck to their shores for millennia, as if pinioned by the prevailing westerlies, before they began to reach across the ocean. Barry Cunliffe has scoured those aeons of under-achievement for signs of promise and hints towards an explanation.

FACING THE OCEAN: THE ATLANTIC AND ITS PEOPLES
By Barry Cunliffe

Oxford University Press; 606 pages; $35 and £25

Buy it at
Amazon.com
Amazon.co.uk

Lapped by a single ocean, Rimland is shaped by common environmental features. Atlantic Europe covers a huge climatic range from northerly boreal to Mediterranean. But those west winds abide. So do the calling, commanding ocean and insistent reminders of a shared geological history. The metal-rich Eldorado of antiquity lay, among lumpy mountain-ranges and tattered coasts, in Wales, Cornwall, Galicia and lower Andalusia. Rivers, flowing east through low reliefs, directed ancient commerce into coastal sea-lanes that connected the region like neighbourhood service-roads. Andalusia and the Scillies were in mutual touch before Phoenician and Greek traders arrived early in the first millennium BC. Overwhelmingly, Europe's Atlantic peoples had maritime vocations in fishing and cabotage—coast-hugging trade. When nautical technology permitted, they became migrants and imperialists—"assured enough", says Mr Cunliffe, "to embark on spectacular conquests." Mr Cunliffe's argument tends to vindicate this Atlantic-side self-awareness by assigning it deep historical roots. He spots the beginnings of Atlantic identity in the Mesolithic period, when "social complexity" made the region relatively "advanced". Megalithic tomb-builders of the fourth millennium BC created "a manifestation of local Atlantic genius". Iron-age continuities of culture included clifftop forts and *chevaux-de-frise* defence-systems. The Vikings achieved "integration of the multi-faceted maritime system". These claims are advanced with every resource of skill and scholarship. Mr Cunliffe writes clearly and engagingly. His text is enriched by wonderful illustrations. His enthusiasm for the region—his Breton second home, his beloved archaeological sites in Spain—enlivens every page.

At times, however, it outruns the evidence. Shared identity does not lie in continuities of material culture. Nor must it arise from common historical experience. Mr Cunliffe uses the term "identity" loosely—creating a misleading impression among those for whom the word is a technical term. In the section on the Iron Age, he speaks more judiciously of a number of identities in Atlantic-side Europe.

His emphasis on the sea as a formative presence, shaping a single, seaward Atlantic attitude, makes the central mystery of the long-unfulfilled potential of Rimland only more baffling. Yet the central message—how geography forged Atlantic-side cultures—is pounded home irresistibly with the force of breakers. The book would be spectacular enough without the additional grail-quest for an Atlantic identity. It delivers history from a fresh perspective, encompassing a region rarely glimpsed as a whole. This is an eagle-eye view of unique clarity from an impassioned observer with a discerning mind.

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New fiction

Winding up

Mar 29th 2001
From The Economist print edition

THE OVERSIGHT
By Will Eaves

Picador; 268 pages; £12

Buy it at
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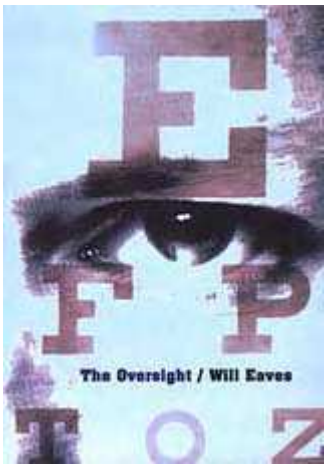

WILL EAVES'S first novel begins with a lot of schoolboy japery—spit balls, nicknames, insults, some gentle bullying. Your heart sinks at the prospect of a Billy Bunterish romp, yet "The Oversight" soon develops into an insightful exploration of memory, death and parenthood.

Daniel Rathbone is the only son of two rather ersatz bohemians who call him, and each other, "man". He spends his schooldays in Bath lusting after his male peers, and then moves to south London to pursue a career in journalism and partake of the metropolitan gay scene. For his 25th birthday, his mother gives him the "slope" (a Victorian writing-desk) that both he and his father—now dead of cancer—used. A hidden drawer opens to reveal a photograph. That picture, together with information brought to light by the accidental death of Daniel's adolescent lover, force him drastically to reconsider his childhood.

The story ranges across four decades, from the courtship of Daniel's parents in the 1960s to his mildly lubricious London life in the mid-1990s. Mr Eaves cuts deftly back and forth through the years, setting up an echo here, leaving a clue there, and always managing to evoke a very particular sense of place and period. The somewhat overworked central metaphor of the novel is that of sight. At a young age, Daniel discovers that he can see in the dark. This uncommon talent is set against his inability to perceive the truth concerning his own upbringing, about which his parents have, as it were, kept him in the dark. Images of cats, mirrors and spectacles abound, though one feels that they have been included for the pleasure of creating a pattern, rather than for anything more considered.

"The Oversight" is also marred by an inconsistency of tone and a handful of mishandled scenes. Weighed against these blemishes, however, is a consistently fine use of language and an acute sensitivity to how the emotional contours of a family flex and are disrupted by events: the account of Daniel's father's death by cancer is especially impressive. Mr Eaves has a very sharp eye for images, and his prose is carefully wrought without ever being baroque. He has written that most honest of books: a coming-of-age novel the central perception of which is that one never really does.

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Self-inflicted puzzles

The problems of Chairman Morse

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MENTION “puzzles” and “Morse” to anyone in Britain and they would probably assume you were referring to Chief Inspector Morse of the hugely successful British television series “Inspector Morse”. What they may not know is that Colin Dexter, who wrote the books of that series, named his hero in honour of his fellow crossword fiend, Sir Jeremy Morse.

CHESS PROBLEMS: TASKS AND RECORDS
By Jeremy Morse

Faber and Faber; 390 pages; £35

Buy it at
Amazon.com
Amazon.co.uk

The real Morse led a sober existence as chairman of Lloyds Bank from 1977 to 1993. His great passion was puzzles, beginning with crosswords at the age of six and graduating to the most complex chess and bridge problems. Sir Jeremy’s book, first published in 1995 and now expanded and updated, catalogues the most challenging problems that have fixed the frontiers of the sport. He has assembled more than 850 problems by some 350 composers from over 40 countries. Even experienced solvers may take years to work through it.

A chess problem is not a game of chess that has gone wrong. The composer constructs a situation on the board that is theoretically possible, although often highly improbable. The puzzler must then solve the task: “White to play and force checkmate in two moves”, for example. The number of different types of chess problems is bewildering, from the familiar checkmate to helpmates, selfmates, series movers and series helpmates. One British grandmaster became obsessed with corner-to-corner series helpmates (don’t ask).

Chess problems have been around for centuries. Composing and solving them remain popular, even with high-speed chess computers. Dozens of websites are devoted solely to problems. Oddly, the chess puzzle attracts enthusiasts who have no interest in playing the game itself. Ability at them is no indicator of across-the-board play, and many grandmasters would be slower than the average problemist at spotting a composed mate-in-two.

If there is a drawback with Sir Jeremy’s book, this is a fault of its virtue. This is a specialist’s book that inhabits the very particular world of problem solving, with its own arcane vocabulary. To solvers, a good chess problem has something creative about it, perhaps artistic even. Unfortunately, that is not for the uninitiated.

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Oscars by numbers

Mar 29th 2001
From The Economist print edition

Get article background

Benicio, Marcia, Julia and Russell

THIS year's Academy Awards brought one or two surprises. Marcia Gay Harden, a little-known actress in a little-seen film, won the best-supporting-actress Oscar for her portrayal of Lee Krasner as artist and muse in "Pollock". Steven Soderbergh won the best-director prize for "Traffic"—a close call that could have gone another way. Otherwise the honour roll was much as expected: Russell Crowe won the best-actor award for his starring role in "Gladiator", which was also judged best picture. Julia Roberts won best actress for "Erin Brockovich" and Benicio del Toro won best supporting actor for "Traffic".

This year's results fit into a well-established pattern—one which is surveyed by Emanuel Levy, a film critic for *Variety*, in his new book "Oscar Fever: The History and Politics of the Academy Awards" (Continuum; $29.95 and £19.99).

Since the awards started in 1927, nearly 40% of all best-picture winners have come from the drama category. And there were some outstanding dramas in the running this year, including Mr Soderbergh's "Traffic" and "Erin Brockovich". That the gong should have gone to the sword-and-sandal epic "Gladiator" is not, however, unheard of. When big, epics tend to be very big. The historical film—a minority genre but one which, as Mr Levy's chart reveals, has produced a proportionally high number of winners—was well exemplified this year by "Gladiator". The film was nominated for no fewer than 12 awards—an impressive feat which puts it on a par with its worthy and popular precursor, "Ben Hur" (1959)—and took away a respectable five Oscars on the night.

Undramatic
Best-picture nominees by genre
1927-2000, % of total

Genre	Winners	Nominees
Drama	38.9	47.1
Comedy	13.9	17.3
Historical	15.3	10.4
Musical	11.1	8.3
Action-adventure	5.5	6.2
War	8.3	5.2
Suspense	2.8	3.1
Western	4.2	2.4
Total number	**72**	**422**

Source: Continuum International

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Modern art in Britain

East End ark

Mar 29th 2001
From The Economist print edition

WHAT links Hogarth with Hockney, Rembrandt with Rothko, Jackson Pollock with the Pre-Raphaelites? Where was Picasso's "Guernica" seen in London? Answer: the Whitechapel Gallery, which celebrates its centenary this year with an exhibition and catalogue* that review its pathbreaking history.

Founded in 1901 by a social reformer, Canon Samuel Barnett, and his wife Henrietta, the Whitechapel Gallery espoused the mission of providing "the finest art of the world for the people of the East End". Barnett also hoped his free exhibitions would keep people from the local slums out of the pub and fill their minds "with thoughts to exclude those created by gloom or sordid temptation". The Whitechapel was the first London gallery with doors open to the street and the first designed with electric lighting so it could be visited at night after work. The heated library became a hub for local people—many of them Jewish immigrants from Eastern Europe—hungry for books and culture.

What set the Whitechapel apart was not just its engagement with the world on its doorstep but its eclectic approach to art. Although the Barnetts failed to endow the gallery (it still suffers financially), they did hire a professional director, Charles Aitken, and let him do his job. He balanced the Barnetts' desire to show uplifting art with a streak of non-conformity. Although the first show displayed safe English masters such as Edward Burne-Jones and John Constable, later exhibitions were gloriously mixed. The schedule of the first decade includes children's art from local schools, Roger Fry, Moghul art, photography, Georgian art, Jewish art and antiquities, Islamic art and life, and the history of tuberculosis.

The impressive centenary exhibition includes 100 items, a tempting sample of the more than 10,000 works of art that have been shown there since the gallery opened. As its organiser, Catherine Lampert, who is leaving soon as director, says, the Whitechapel has always engaged in "the radical art and politics of its time". It showed cubist and other modernist works in 1914, when the National Gallery still considered them subversive. It showed the Russian avant-garde in the 1920s, and later Picasso's anti-war masterpiece. Starting in the 1950s, Bryan Robertson, the then director, turned the gallery into an international venue for contemporary art with shows of American abstract expressionists, the legendary "This is Tomorrow" show of 1956 which introduced British pop art, and an influential "New Generation" series which launched many British sculptors and painters of the 1960s. Sir Nicholas Serota, now the Tate director, made his reputation as the director of the Whitechapel in 1976-88.

At a time when many museums are growing ever bigger and governments tend more and more to measure the arts in terms of their commercial value, it is worth celebrating the Whitechapel's modest scale, unpredictable programme and history of social outreach. In the past ten years, its attendance has doubled to 250,000 visitors a year. At 100, the Whitechapel Gallery remains an example of how art can add immeasurable value to people's lives.

*The Whitechapel Centenary runs until May 20th. A catalogue, "Centenary Review" (148 pages, £8), is available at the gallery.

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Festivals that work

Albert's pride

Mar 29th 2001
From The Economist print edition

THE credit for the Great Exhibition belonged to Albert, the Prince Consort, a great enabler. At a splendid banquet at the Banqueting House in London (turtle soup, six kinds of fish, followed by lobster, mutton, pigeons and raised ornamental pies) the consort announced that the exhibition was "to give us a true test of the point of development at which the whole of mankind has arrived in this great task, and a new starting point from which all nations will be able to direct their further exertions." He further emphasised—and was loudly cheered when he did so—that the exhibition should be paid for not by the government, but by donations from the British people, and it should be "the festival of the working man and the working woman".

THE WORLD FOR A SHILLING: HOW THE GREAT EXHIBITION OF 1851 SHAPED A NATION
By Michael Leapman

Headline; 308 pages; £14.99

Buy it at Amazon.co.uk

Henry Cole, a Victorian polymath, put the idea for a large national exhibition to Albert, and Albert with his three areas of expertise—trade, science and the arts, as well as his need for a more favourable public profile—made it happen. Queen Victoria gave £1,000 to the project and Albert £500. Businessmen collected from their employees, but commercial involvement in the enterprise was forbidden.

After a competition, Joseph Paxton's magnificent plan was approved. It called for nearly 1m square feet of glass—glass and iron, beauty wedded to strength—and was 1,851 feet long, to commemorate the year of its construction. It even incorporated the beloved Hyde Park elm trees. Even more remarkable was the speed of construction. As the *Times* put it: "It took 300 years to build St Peter's in Rome, and 30 years to build St Paul's. This is taking three months." There were fears—largely unfounded—of troublemakers, the French Revolution and Chartist riots being still fresh in people's minds, of foreigners and pickpockets, and concerns that the urinals or "monkey-closets" might be inadequate.

Comparisons with the Millennium Dome at Greenwich are inevitable. For the Great Exhibition, prices were fixed so as to make it more expensive to visit the Crystal Palace in the first few weeks and progressively cheaper thereafter. The cheapest entry cost a shilling (£2.80 in today's money), compared with £20 ($30) or a family ticket of £57, which was the price for entering the Dome. More people visited the Great Exhibition than the Dome, although the population of Britain was less than half what it is now, and the exhibition remained open for only half as long. Its importance lives on in the museums of London's South Kensington and in the Royal Albert Hall, paid for by the profits from the exhibition. (A yearly income of £1m from the fund still aids educational projects.)

Michael Leapman, a reviewer in these pages, tells this inspiring story from the point of view of visitors and organisers. Two fascinating chapters take you on a tour of the premises and the artefacts it contained, the next best thing to time travel. Though the exhibits showed an "eclecticism gone mad", it was a brilliant success. If only the organisers of the Greenwich Dome had been more alert to what was achieved by Cole and Paxton and the Prince Consort, Londoners might now be boasting and not sniggering about those broken dreams.

DAVID BENEDICTUS

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Alberto Giacometti

Mar 29th 2001
From The Economist print edition

Alberto Giacometti (1901-66) was without question one of the greatest sculptors and draughtsmen of the 20th century. His centenary is being marked in Europe and America by two retrospective shows. You still have a few days to see the splendid one at the Centre Pompidou in Paris (it ends on April 7th). Then Zurich's Kunsthaus, in association with the Giacometti Foundation and New York's Museum of Modern Art, opens its show (May 15th-September 2nd). This travels to MoMA in New York (October 11th-January 8th 2002).

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Why is art so hard?

Pain and pleasure

Mar 29th 2001
From The Economist print edition

IF ART is all about beauty and a thing of beauty is a joy for ever, why then do we also believe that creative ecstasy must be agony to the genius? How is it that the ugly, violent and shocking now seem to dominate the visual arts? And, most disturbingly, why do we seem to get such pleasure out of representations of cruelty and pain? These are the big issues behind Nigel Spivey's unsettling book, all flagged by the clever pun of his title.

ENDURING CREATION: ART, PAIN AND FORTITUDE
By Nigel Spivey

University of California; 272 pages; $39.95.
Thames & Hudson; £24.95

Buy it at
Amazon.com
Amazon.co.uk

As Mr Spivey, a Cambridge classicist, shows in a book which consistently picks at our sores, these are also dilemmas which have long histories. For one thing, the fear that art is compromising and even corrupting is as old as art itself. Plato wanted poets banished—they traded on (false) emotion when what citizens needed was a hard diet of reason; and in any case, was not pity effeminising? For its part, Judaism, many Christian confessions and Islam too—witness the recent destruction of Buddhist statues in Afghanistan—have embraced an iconoclasm profoundly distrustful of images and idolaters.

Different aesthetic doctrines, by contrast, passed down from antiquity, have praised art for its transcendental aspirations—the very hopes expressed by Keats in his ode "On a Grecian Urn". And mainstream Christianity has taught the edifying power of art which moves. The man of sorrows, the crucifixion, the *pietà*, the massacre of the innocents, the martyrdom of saints and other motifs which dominated medieval frescos were designed to convey pathos and melt the heart no less than instruct the mind. And who cannot feel their humanity enhanced when standing before a Dürer or Rembrandt self-portrait, or in the presence of one of Goya's or Van Gogh's wrenching social dramas? For the Dutchman, observes Mr Spivey, art was the extension of gospel preaching. Géricault painted his "Raft of the Medusa" to rouse viewers to a loathing of the corrupt regime which had made that appalling shipwreck a disaster waiting to happen.

Such aesthetics of emotionality, however, had ambivalent futures ahead of them. For Gothic horror and the cult of the sublime brought terror for terror's sake, and they in turn bred the theatre of cruelty and the Modernist creed that art's first duty is to shock. Yet art which bludgeons the senses ends up by numbing, and thus paves the way to the snuff movie and the reduction of art to sado-masochistic voyeurism. Not that there is anything new even in that. For classical anecdotes, as Mr Spivey recounts, tell of artists actually torturing their models so as to be able to chisel pain with utter veracity. And who is to say what kicks renaissance painters such as Sodoma (Giovanni Antonio Bazzi) got out of portraying St Sebastian posing so elegantly when riddled with arrows?

In a book lavishly illustrated, appealingly designed, and studded with epigrammatic *aperçus*, no neat answers are offered to the aesthetic conundrum of cruelty beautified. But then life itself offers no ready solution either. We have, as Mr Spivey reflects, been programmed to pathos, and the other side of that cultural coin may be our ghoulish fascination for the photo-journalism which captures the last wince and wail of every disaster. It is not art which is the problem, art merely makes it manifest. But then as Mr Spivey also reminds us, "art keeps us going, in our wounded state".

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New fiction

Winding down

Mar 29th 2001
From The Economist print edition

IN THE BLUE HOUSE
By Meaghan Delahunt

Bloomsbury; 320 pages; £16.99

Buy it at
Amazon.co.uk

"YOU cannot live through [life] without falling into prostration and cynicism," wrote Leon Trotsky in 1934, "unless you have a great idea which raises you above personal misery, above weakness, above all kinds of perfidy and baseness..." Six years later, living in exile in Mexico city and watching his life spiral towards a bloody conclusion (by way of an ice-pick in the back of the head), the ageing revolutionary is having his doubts. With his children and his old comrades all dead, his marriage nearly destroyed by a brief romance with a temperamental Mexican painter, Frida Kahlo, in whose deep blue house he lives, Trotsky works feverishly on a never-to-be-finished biography of his nemesis, Josef Stalin, while at the same time appraising the tumultuous path of his own life and wondering where his grand ideas have got him.

Meaghan Delahunt's first novel is a mosaic of lives winding down—not only Trotsky's, whose imagined journal weaves its way through the whole book, but those of other characters, told from their own viewpoints. Trotsky's wife, her life dwindling into emptiness as first her children and then her husband die; Trotsky's father, torn between pride for his son and bewilderment at the revolution that took away all he had worked for; Vladimir Mayakovsky, an avant-garde poet alienated from the Soviet system whose hero he had once been, committing suicide; Stalin, sinking into madness as a growing populace of cysts, like the souls of his victims, puts pressure on his brain; Stalin's second wife, Nadezhda Alliluyeva, submitting to another kind of pressure and blowing her brains out rather than continue to witness his murderous folly. There are other characters, too, each contributing little pieces of understanding to Trotsky's murder, among them a maker of papier-mâché Judas figures who reads Trotsky's death in his palm, and the assassin himself, sent by Stalin's security agency.

"In the Blue House" could have been a depressing book, but instead it is a compassionate one, beautifully executed in small, sure strokes, with characters and events subtly mirroring one another—a bit like figures in some of Kahlo's canvases. Kahlo herself remains the most enigmatic character. We hardly hear from her—she was less celebrated in life than later—and when we do, it is to learn that she is as weakly human as all the people who are drawn like moths to her brilliance. In the end, great ideas fail, small comforts prevail and it is those with the fewest big ideas who end up the least unhappy.

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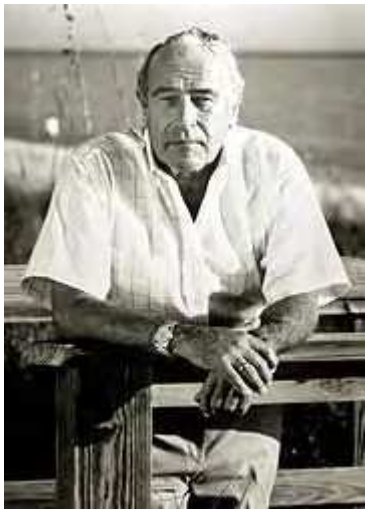
Robert Ludlum

Mar 29th 2001
From The Economist print edition

Robert Ludlum, the world's most read writer, died on March 12th, aged 73

EPA



PUBLISHING yet another novel was not always a cause for celebration for Robert Ludlum. Yes, it was going to be a huge financial success. His publisher was ecstatic. Advance orders were stupendous. The book was going to be translated into dozens of languages, including Icelandic. His wife Mary had read it and said it was his best yet. But out there, in the literary jungle, were the tigerish critics eagerly awaiting the latest Ludlum offspring to sink their teeth into.

Mr Ludlum "finds his characters on the back of cereal boxes, his prose in movie magazines." Ouch. "The Ludlum hallmarks", another critic wrote, are "ham-fisted cliché, risible dialogue and the scattergun use of italics and exclamation marks." A fellow tiger agreed, "It's a lousy book." But he added, "So I stayed up until 3am to finish it."

That was the trick. However you viewed Mr Ludlum's prose, his books were page-turners, to use a cliché he would have been particularly proud of. Even the titles had a read-me urgency. Each would began with the definitive "The" followed by a mesmeric combination of syllables: "The Rhinemann Exchange", "The Icarus Agenda", "The Bourne Ultimatum", "The Parsifal Mosaic", "The Scarlatti Inheritance". The page-turning public bought at least 200m copies of his 22 books, and perhaps as many as 300m, making him probably the world's most read writer. He was said to be getting an advance payment of $4m a book, again a figure that was likely to be a record among the half a dozen writers who dominate the popular market.

Those who read of his success, many of them other writers but regrettably without his touch, would make a pilgrimage to their local bookshop in a quest for the secret of these tomes of gold. So you open, say, "The Scarlatti Inheritance", and enter the Ludlum world. " 'Stay where you are, you scum, you English fairy!' Kroeger drew the pistol from his holster. Canfield, standing by Elizabeth, saw that it was a long-barrelled forty-five and would blast half a man's body off with one shot. 'Stay where you are! Finished! Nothing's finished until I say finished. God damn filthy pigs!' "

The plot thickens

Those unfamiliar with this genre should know that it has a long, and happily dishonourable, tradition. James Thurber parodied the style in "The Secret Life of Walter Mitty", a lasting memorial to all thriller writers: " 'We're going through!' The Commander's voice was like thin ice breaking. He wore his full-dress uniform, with the heavily braided white cap pulled down rakishly over one cold grey eye. 'We can't make it, sir. It's spoiling for a hurricane, if you ask me.' 'I'm not asking you, Lieutenant Berg,' said the Commander. 'Throw on the power lights! Rev her up to 8500! We're going through!' "

If there is a mystery about Mr Ludlum's success it may be why he seems to have done just a bit better than others writing the same kind of stuff. Part of it is good marketing. A lot was his dogged professionalism, writing 2,000 words a day (in longhand), starting at 4.30 in the morning. But mostly it was Mr Ludlum's masterly plotting, his skill at devising stories with numerous and ingenious twists. Every article has a surprise. You might sneer at the dialogue, but you wanted to know what happened next, what Kroeger would do now. And everything was at stake: the future of the world, at least. In Mr Ludlum's hands the cold war was even more chilling. His concern with global mischief wasn't just story-telling, he said. He had "a certain anger" about the way the world was run. He cared.

His apocalyptic messages were a part of the thriller tradition that dates back at least to Sherlock Holmes. Conan Doyle was rather more sparing with the exclamation marks, but like Robert Ludlum he was a

persuasive storyteller. And he too made his readers feel they were getting a privileged glimpse into how the real world was run. In “A Scandal in Bohemia” the enthralled reader learns that the problem challenging Holmes “is of such weight that it may have an influence on European history”.

It is possible that Robert Ludlum once played Sherlock Holmes. He did not take up writing until he was 40. For some 20 years before that he was cast in many roles in the theatre and on television. He appeared in some 200 television dramas. With his calm, laid-back style he was in demand as a lawyer, the sort that with a few incisive words demolishes the prosecution’s seemingly impregnable case. On the other hand he was content to play an unsuspected killer. When acting work was scarce he did “voice-overs” for TV advertisements. He would reassure viewers with drain problems that “Plunge works fast”.

Such lucrative work, he said amiably, was “morally one step below theft”, but helped to pay for the education of his three children. After his first novel he was poor no more and was able to buy homes here and there and do the sort of things that come with wealth. But he never stopped writing. In three books still to be published, the good guys have yet again to confront the villains intent on global conspiracies. And ruthlessly keep readers awake until three in the morning.

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OUTPUT, DEMAND AND JOBS

Mar 29th 2001
From The Economist print edition

Despite fears of a possible recession in America, retail sales rose in the year to January, though more slowly than before. Sales in Italy dropped by 1.0% over the same period. Industrial production shrank by 2.1% in Japan in the year to February. But it is picking up in Spain; growth reached 4.7% in the 12 months to January.

% change at annual rate	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)	Unemployment % rate	
	3 mths†	1 year	2001	2002	3 mths†	1 year	1 year	latest	year ago
Australia	− 2.2	+ 2.1 Q4	+ 3.0	+ 4.0	− 1.5	+ 4.2 Q3	− 0.1 Q4	6.9 Feb	6.7
Austria	+ 1.2	+ 1.9 Q3	+ 2.4	+ 2.7	na	+ 2.2 Nov*	− 1.3 Dec	3.7 Jan	3.7
Belgium	+ 4.9	+ 3.1 Q4	+ 2.7	+ 2.8	na	+ 6.7 Jan*	+ 5.0 Dec	10.6 Feb*	11.0
Britain	+ 1.4	+ 2.6 Q4	+ 2.5	+ 2.8	− 2.0	+ 1.1 Jan	+ 5.8 Feb	5.2 Jan‡	5.9
Canada	+ 2.6	+ 4.0 Q4	+ 2.6	+ 3.5	+ 1.8	+ 3.2 Dec	+ 3.9 Dec	6.9 Feb	6.8
Denmark	+ 2.0	+ 2.7 Q3	+ 2.0	+ 2.2	na	+ 4.3 Jan	− 1.0 Dec	5.3 Jan	5.4
France	+ 3.9	+ 2.8 Q4	+ 2.6	+ 2.9	+ 2.5	+ 2.9 Jan	+ 1.4 Jan	9.0 Jan	10.5
Germany	+ 0.8	+ 1.9 Q4	+ 2.4	+ 2.8	+ 3.9	+ 7.1 Jan	+ 4.8 Jan	9.3 Feb	10.1
Italy	+ 3.2	+ 2.7 Q4	+ 2.2	+ 2.6	+ 6.8	+ 9.6 Jan	− 1.0 Jan	10.1 Oct	11.1
Japan	+ 3.2	+ 2.8 Q4	+ 1.1	+ 1.7	− 3.6	− 2.1 Feb	+ 1.8 Jan	4.9 Jan	4.7
Netherlands	+ 5.1	+ 3.1 Q4	+ 3.1	+ 3.3	+ 8.6	+ 9.4 Dec	+ 2.9 Nov	2.4 Feb§	2.8
Spain	+ 2.9	+ 3.7 Q4	+ 3.1	+ 3.5	+ 0.6	+ 4.7 Jan	na	13.7 Jan	15.0
Sweden	+ 2.4	+ 2.6 Q4	+ 3.1	+ 3.3	na	+10.1 Dec	+ 4.9 Jan	4.2 Feb*	5.4
Switzerland	+ 1.8	+ 2.5 Q4	+ 2.2	+ 2.4	na	+ 5.0 Q4*	− 2.0 Dec	1.9 Feb*	2.4
United States	+ 1.1	+ 3.4 Q4	+ 1.6	+ 3.4	− 4.7	+ 1.2 Feb	+ 2.3 Jan	4.2 Feb	4.1
Euro area	+ 2.8	+ 3.0 Q4	+ 2.5	+ 2.9	+ 6.6	+ 5.1 Jan	+ 1.7 Dec	8.8 Jan	9.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Finland	+ 3.0	+ 5.5 Q4	na	na	+ 2.6	+ 6.7 Jan	+ 3.6 Nov	9.9 Jan*	10.6
Greece	na	+ 2.5 2000	na	na	na	+ 3.1 Nov	+ 6.0 Nov	na	na
Iceland	na	+ 4.4 1999	na	na	na	+ 4.2 1999	na	1.3 Dec	1.7
Ireland	+21.5	+12.2 Q2	na	na	na	+32.2 Jan	+ 6.2 Dec	3.6 Feb	4.5
Luxembourg	na	+ 8.5 2000	na	na	na	+ 0.6 Dec*	+ 9.4 Nov	2.8 Jan	2.6
New Zealand	+ 2.7	+ 2.4 Q3	na	na	na	+ 2.7 Q3*	+ 7.3 Q4	5.6 Q4	6.3
Norway	+ 0.2	+ 0.9 Q4	na	na	+ 3.5	− 0.3 Jan	− 0.5 Jan	3.1 Q4	3.2
Portugal	+ 5.1	+ 3.4 Q3	na	na	na	− 0.3 Jan*	+ 3.1 Dec	3.8 Q4	4.1

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate. ‡Nov-Jan; claimant count rate 3.4% in February. §Dec-Feb.

Text refers only to the first 16 countries listed

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COMMODITY PRICE INDEX

Mar 29th 2001
From The Economist print edition

Average world cotton prices have fallen by 22% since the start of the year, to 51.75 cents a pound. As demand from American mills stalls, selling by speculators in New York has dragged the May contract to its lowest price for nearly 15 years. The International Cotton Advisory Committee reckons that world production in the 12 months starting last August will be 20.3m tonnes, 50,000 tonnes more than consumption. In China, the biggest producer and consumer, output is forecast to reach 4.7m tonnes, the highest for six years. Higher prices relative to other crops are persuading farmers to grow more cotton. As a result, China, which has a policy to run down its stockpile, is now expected to import a mere 175,000 tonnes of cotton in 2001-02.

1995=100	Mar 20th	Mar 27th*	% change on one month	% change on one year
Dollar index				
All items	70.1	69.5	– 1.5	– 6.6
Food	69.4	68.6	– 1.6	– 4.2
Industrials				
All	71.1	70.6	– 1.4	– 9.5
Nfa†	66.3	66.0	+ 2.1	– 10.6
Metals	75.2	74.5	– 3.8	– 8.6
Sterling index				
All items	77.5	76.2	– 1.2	+ 3.1
Food	76.7	75.3	– 1.3	+ 5.7
Industrials	78.5	77.5	– 1.0	– 0.2
Euro index				
All items	102.2	102.3	+ 1.3	+ 1.2
Food	101.1	101.1	+ 1.2	+ 3.7
Industrials	103.6	104.0	+ 1.5	– 2.0
Yen index				
All items	91.5	91.0	+ 4.4	+ 8.6
Food	90.5	90.0	+ 4.3	+ 11.3
Industrials	92.8	92.5	+ 4.5	+ 5.2
Gold				
$ per oz	260.00	262.10	– 2.3	– 6.6
Crude oil North Sea Brent				
$ per barrel	25.14	25.90	– 0.2	+ 1.1
West Texas Intermediate				
$ per barrel	25.73	27.51	– 2.6	+ 1.4

* Provisional. † Non-food agriculturals.

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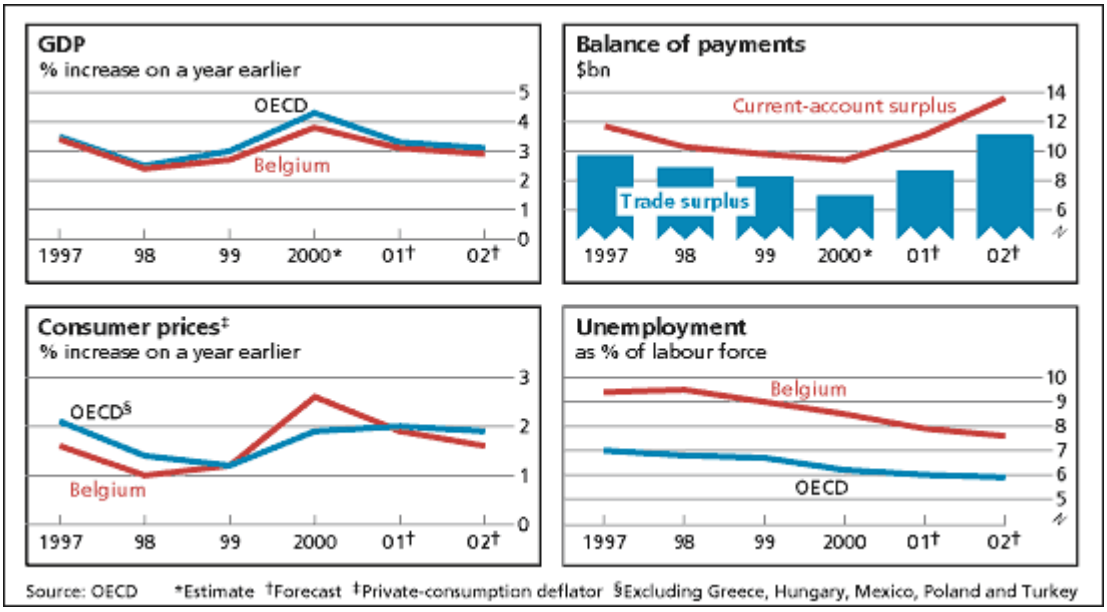
BELGIUM

Mar 29th 2001
From The Economist print edition

The Belgian economy has been performing well over the past few years. Growth has been in line with that of other developed countries, and consumer-price inflation was low until last year's oil-price shock. Best of all, unemployment has started to fall. Looking ahead, the OECD forecasts steady economic growth and continuing falls in unemployment. Even so, the jobless rate will remain above the average for other advanced economies, because of a number of serious weaknesses in the labour market. The participation rate is low, the incidence of long-term unemployment is high, labour mobility is low, wages are not flexible enough and taxes on labour are excessive. Further sustained growth, the OECD says, depends upon tackling these problems.



Source: OECD *Estimate †Forecast ‡Private-consumption deflator §Excluding Greece, Hungary, Mexico, Poland and Turkey

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PRICES AND WAGES

Mar 29th 2001
From The Economist print edition

Consumer prices in Germany rose by 2.5% in the year to March. Swedish producer prices increased by only 2.5% in the year to February; falling telecoms and telecoms-equipment prices pulled inflation below the market's expectations. In February Italian producer prices increased by 4.9% over the previous year.

% change at annual rate	Consumer prices*		The Economist poll consumer prices forecast		Producer prices*		Wages/earnings	
	3 mths†	1 year	2001	2002	3 mths†	1 year	3 mths†	1 year
Australia	+ 1.2	+ 5.8 Q4	+ 3.9	+ 3.0	+10.2	+ 8.4 Q4	– 3.3	+ 5.0 Q4
Austria	na	+ 2.6 Feb	+ 1.7	+ 1.7	– 1.1	+ 2.6 Feb	+ 1.9	+ 2.2 Dec
Belgium	– 0.2	+ 2.3 Feb	+ 2.0	+ 1.9	– 3.5	+ 5.4 Jan	+ 3.7	+ 1.6 Q4
Britain	– 0.1	+ 2.7 Feb	+ 2.2	+ 2.5	– 1.5	+ 1.6 Feb	+ 7.5	+ 4.4 Jan
Canada	+ 0.7	+ 2.9 Feb	+ 2.4	+ 2.2	+ 2.4	+ 3.1 Jan	– 3.0	+ 1.7 Dec
Denmark	+ 0.5	+ 2.4 Feb	+ 2.3	+ 2.3	– 4.6	+ 3.4 Feb	+ 3.0	+ 3.6 Q4
France	– 0.5	+ 1.4 Feb	+ 1.4	+ 1.5	+ 0.5	+ 3.6 Jan	+ 4.6	+ 5.3 Q3
Germany	+ 4.3	+ 2.5 Mar	+ 1.7	+ 1.5	– 1.5	+ 3.7 Feb	na	+ 2.4 Jan*
Italy	+ 3.2	+ 3.0 Feb	+ 2.2	+ 2.0	+ 1.6	+ 4.9 Feb	+ 0.9	+ 1.7 Dec*
Japan	– 0.1	+ 0.1 Jan	– 0.4	– 0.3	+ 2.7	+ 0.1 Feb	na	– 0.3 Jan
Netherlands	+ 2.6	+ 4.5 Feb	+ 3.2	+ 2.3	+ 3.6	+ 6.8 Jan	+ 2.3	+ 2.9 Jan
Spain	+ 3.0	+ 3.8 Feb	+ 2.9	+ 2.7	+ 1.5	+ 3.9 Jan	+ 3.2	+ 2.4 Q3
Sweden	na	+ 1.6 Feb	+ 1.7	+ 1.7	+ 0.6	+ 2.5 Feb	+ 3.7	+ 2.6 Dec*
Switzerland	+ 0.4	+ 0.8 Feb	+ 1.4	+ 1.3	– 0.2	+ 0.8 Feb	na	+ 0.2 1999
United States	+ 3.7	+ 3.5 Feb	+ 2.6	+ 2.3	+ 5.1	+ 4.0 Feb	+ 4.7	+ 4.1 Feb
Euro area	+ 1.6	+ 2.6 Feb	+ 1.9	+ 1.8	+ 2.6	+ 4.8 Jan	+ 1.2	+ 1.8 Q3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 0.6	+ 3.1 Feb	na	na	– 7.4	+ 3.2 Feb	+ 3.0	+ 4.3 Q4*
Greece	– 0.4	+ 3.5 Feb	na	na	+ 0.9	+ 5.2 Jan	na	na
Iceland	+ 2.3	+ 3.9 Mar	na	na	+10.1	+ 6.0 Mar	+11.0	+ 8.2 Feb
Ireland	+ 1.3	+ 5.3 Feb	na	na	– 1.5	+ 3.5 Feb	+17.5	+ 7.0 Q2*
Luxembourg	+ 1.4	+ 2.9 Feb	na	na	+ 2.5	+ 5.3 Jan	+ 7.7	+ 8.4 Oct*
New Zealand	+ 4.7	+ 4.0 Q4	na	na	+15.0	+10.2 Q4	+ 1.8	+ 1.6 Q4
Norway	+ 4.3	+ 3.6 Feb	na	na	na	+ 3.8 Feb	+ 7.7	+ 4.3 Q4*
Portugal	+ 5.3	+ 4.8 Feb	na	na	+ 4.3	+ 7.3 Jan	na	+ 1.6 Jan*

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate.

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MONEY AND INTEREST RATES

Mar 29th 2001
From The Economist print edition

American Treasury bonds plummeted on March 27th, after an unexpected rise in one consumer-confidence indicator boosted shares. In February the 12-month growth rate of Canada's broad-money supply slowed again, to 6.3%.

	Money supply* % rise on year ago			Interest rates % p.a. (Mar 28th 2001)							
				over-	3-mth money market		banks	2-year	10-year gov't		corporate
	narrow	broad		night	latest	year ago	prime	gov't bonds	latest†	year ago	bonds
Australia	+ 9.7	+ 5.8	Jan	5.50	5.20	6.04	8.50	4.66	5.31	6.52	6.55
Britain	+ 8.4	+ 9.1	Feb	5.38	5.44	6.16	6.75	4.95	4.68	5.32	6.22
Canada	+13.6	+ 6.3	Feb	4.87	4.59	5.28	6.75	4.62	5.42	6.05	6.90
Denmark	na	+ 1.8	Dec	4.90	5.00	4.10	8.00	4.67	4.93	5.53	7.11
Japan	+ 4.7	+ 2.7	Feb	0.01	0.04	0.05	1.50	0.13	1.29	1.85	1.35
Sweden	+ 3.9	– 0.2	Feb	4.00	4.03	3.96	4.35	3.94	4.65	5.66	4.20
Switzerland	– 2.9	+ 0.9	Feb	3.47	3.47	2.90	5.38	3.10	3.19	4.01	4.05
United States	– 0.7	+10.1	Feb	5.06	4.62	6.09	8.00	4.35	4.98	6.16	7.01
Euro area‡	+ 1.4	+ 4.7	Jan	4.75	4.56	3.82	5.65	4.21	4.61	5.24	5.50

†France 4.75, Germany 4.61, Italy 5.10. Benchmarks: Japan No.230 1.33, US 30-yr 5.47. ‡Germany for prime and bonds.

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4.Sources: Commerzbank, Den Danske, J.P. Morgan Chase, Royal Bank of Canada, Svenska Handelsbanken, Warburg Dillon Read, WEFA Gp, Westpac, Thomson Financial Datastream.Rates cannot be construed as banks' offers.

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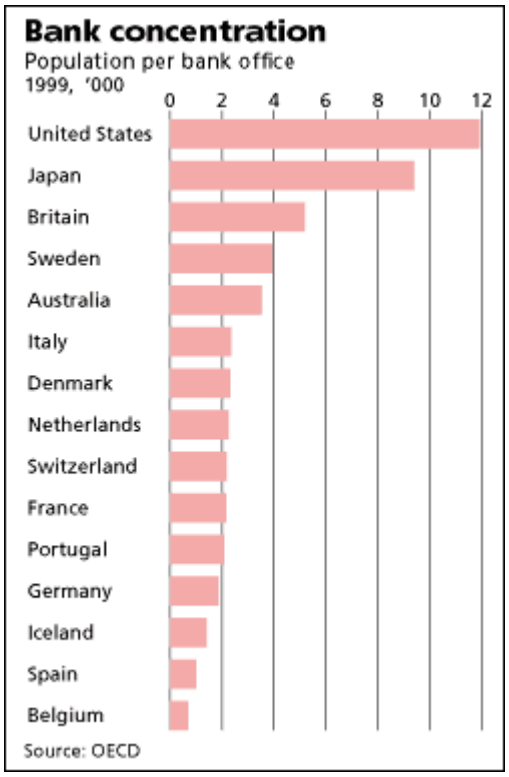
BANK BRANCHES

Mar 29th 2001
From The Economist print edition

The more people a bank can serve through each branch, the better. Branches typically make up about half of a bank's total costs. So if a bank can get rid of any, it will. American banks have been the world's most successful at getting the utmost out of their branch networks. At the end of 1999, according to the OECD, American banks served almost 12,000 people out of each of their branches. In Belgium, where practically every village has its pub and its bank, bank branches serve only 698 people, on average. The relative branch density of the countries in our chart has not changed a great deal of late. In 1994, Belgian bank branch concentration was the highest, and America's the lowest. The biggest mover is Australia, where banks have embarked on a big branch-cutting programme.



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TRADE, EXCHANGE RATES AND BUDGETS

Mar 29th 2001
From The Economist print edition

In the 12 months to January the visible-trade deficit in the euro area, which now includes Greece, widened to $9.3 billion. A year earlier the 12 countries had registered a 12-month surplus of $31.5 billion. Britain's current-account deficit expanded to $24.5 billion in 2000. The trade-weighted value of the yen increased by 1.4%.

	Trade balance*, $bn		Current account		Exchange rate		Currency units				Budget
	latest month	latest 12 months	$bn latest 12 mths	The Economist poll % of GDP, forecast 2001	2002	trade-weighted† Mar 28th	year ago	per $ Mar 28th	year ago	per £	per euro	per ¥100	balance % of GDP 2000‡
Australia	+ 0.04 Jan	– 4.3	– 15.1 Q4	-3.4	-3.6	69.3	78.4	2.02	1.63	2.90	1.80	1.66	0.9
Austria	– 0.77 Dec§	– 4.6	– 5.0 Jan	-2.4	-2.0	100.3	100.1	15.5	14.4	22.2	13.8	12.70	-1.6
Belgium	+ 0.71 Dec§	+ 13.5	+ 10.3 Sep	4.2	4.2	98.9	98.6	45.4	42.3	65.1	40.3	37.2	-0.1
Britain	– 3.48 Jan	– 42.6	– 24.5 Q4	-1.9	-1.6	106.0	109.5	0.70	0.63	–	0.62	0.57	2.7
Canada	+ 4.19 Jan	+ 37.7	+ 12.7 Q4	0.6	0.9	76.5	81.2	1.57	1.45	2.25	1.40	1.29	2.5
Denmark	+ 0.42 Jan	+ 5.0	+ 2.8 Jan	1.4	1.4	101.8	100.5	8.39	7.81	12.0	7.46	6.88	2.7
France	+ 0.28 Jan	+ 1.1	+ 24.1 Dec	1.9	1.9	101.5	101.4	7.38	6.88	10.6	6.56	6.05	-1.4
Germany	+ 6.19 Jan	+ 53.0	– 25.1 Jan	-1.2	-1.0	98.5	98.2	2.20	2.05	3.16	1.96	1.81	1.4
Italy	+ 0.97 Jan	+ 1.4	– 4.4 Dec	-0.2	-0.1	72.5	72.4	2,178	2,031	3,124	1,936	1,787	-0.1
Japan	+ 4.99 Jan	+ 111.5	+ 114.0 Jan	2.3	2.3	138.8	154.2	122	106	175	108	–	-6.0
Netherlands	+ 1.49 Jan§	+ 15.2	+ 13.7 Q4	3.9	4.2	97.8	97.4	2.48	2.31	3.56	2.20	2.03	1.6
Spain	– 3.10 Jan	– 39.6	– 17.7 Dec	-3.1	-3.1	74.1	73.9	187	175	268	166	154	-0.3
Sweden	+ 0.98 Feb	+ 13.6	+ 5.6 Jan	2.1	2.0	76.1	84.8	10.32	8.65	14.8	9.18	8.47	3.4
Switzerland	+ 0.17 Feb§	– 0.8	+ 32.5 Q3	11.8	11.3	107.6	103.0	1.72	1.67	2.47	1.53	1.41	na
United States	– 39.50 Jan	– 455.2	– 434.9 Q4	-4.3	-3.9	119.4	108.1	–	–	1.43	0.89	0.82	2.3
Euro area	– 6.94 Jan§	– 9.3	– 33.7 Jan	-0.2	-0.2	78.5	79.1	1.12	1.05	1.61	–	0.92	0.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of The Economist												
Finland	+ 1.14 Jan§	+ 13.4	+ 9.5 Jan	na	na	78.1	76.7	6.69	6.24	9.60	5.95	5.48	4.0
Greece	– 1.80 Q3	– 7.2	– 7.6 Sep	na	na	57.4	58.3	383	351	549	341	314	-1.0
Iceland	+ 0.01 Jan§	– 0.5	– 0.9 Q4	na	na	na	na	88.0	73.9	126	78.2	72.2	2.8
Ireland	+ 2.47 Dec	+ 25.9	+ 0.2 Q3	na	na	87.2	86.7	1.13	0.83	1.62	1.00	0.93	5.6
Luxembourg	– 0.18 Dec§	– 2.4	+ 1.6 Q3	na	na	98.9	98.6	45.3	42.3	65.0	40.3	37.2	na
New Zealand	+ 0.18 Feb§	– 0.4	– 2.6 Q4	na	na	78.6	86.6	2.44	1.99	3.50	2.17	2.00	0.5
Norway	+ 2.29 Feb	+ 26.2	+ 22.5 Jan	na	na	94.6	92.9	9.09	8.46	13.0	8.08	7.46	14.0
Portugal	– 1.32 Dec§	– 14.9	– 10.6 Dec	na	na	89.3	88.9	225	210	323	200	185	-1.5

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.
§Not seasonally adjusted.

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STOCKMARKETS

Mar 29th 2001
From The Economist print edition

After hitting lows for the year, stockmarkets rallied briefly, despite more profit warnings on March 28th. Most markets managed gains over the week; the Dow and the Nikkei closed up 3.1% and 5.0% respectively, though the Nikkei fell back on March 29th.

Market indices	Mar 28th	2001 high	2001 low	% change on one week	% change on one year	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,127.4	3,312.1	3,094.3	– 1.4	– 3.1	– 6.1	– 0.9	– 11.7
Austria (ATX)	1,169.4	1,219.5	1,052.2	+ 1.6	+ 5.0	– 32.7	+ 9.0	+ 3.2
Belgium (Bel 20)	2,759.8	3,030.4	2,591.6	+ 2.9	– 2.4	– 25.0	– 8.8	– 13.6
Britain (FTSE 100)	5,614.0	6,334.5	5,314.8	+ 1.3	– 14.9	– 19.0	– 9.8	– 13.3
Canada (Toronto Composite)	7,506.5	9,348.4	7,639.8	– 2.1	– 22.6	– 34.1	– 16.0	– 19.7
Denmark (Copenhagen SE)	878.3	1,002.1	853.1	+ 1.9	– 0.8	– 15.5	– 3.1	– 8.3
France (SBF 250)	3,310.5	3,820.2	3,107.9	+ 2.4	– 20.0	– 24.6	– 12.2	– 16.9
Germany (Xetra DAX)	5,817.5	6,795.1	5,388.0	+ 3.5	– 26.0	– 27.9	– 9.6	– 14.4
Italy (BCI)	1,692.1	1,948.4	1,609.6	+ 2.7	– 17.4	– 22.5	– 11.7	– 16.4
Japan (Nikkei 225)	13,765.5	14,032.4	11,819.7	+ 5.0	– 33.5	– 64.6	– 0.1	– 6.4
(Topix)	1,337.3	1,313.0	1,162.0	+ 4.9	– 22.8	– 53.6	+ 4.2	– 2.3
Netherlands (EOE)	552.8	642.3	518.3	+ 2.0	– 19.0	– 21.2	– 13.3	– 17.9
Spain (Madrid SE)	873.1	963.9	818.6	+ 2.6	– 20.6	– 23.8	– 0.9	– 6.1
Sweden (Affarsvarlden Gen)	234.8§	292.7§	223.8§	+ 1.7	– 36.4	– 41.3	– 15.4	– 22.6
Switzerland (Swiss Market)	6,966.9	8,135.4	6,574.0	+ 0.0	– 5.9	– 17.2	– 14.4	– 19.4
United States (DJIA)	9,785.4	10,983.6	9,389.5	+ 3.1	– 11.2	– 16.5	– 9.3	– 9.3
(S&P 500)	1,153.3	1,373.7	1,117.6	+ 2.8	– 23.5	– 24.5	– 12.6	– 12.6
(Nasdaq Comp)	1,854.1	2,859.2	1,830.2	+ 1.3	– 60.1	– 63.3	– 24.9	– 24.9
Europe (FTSE Eurotop 300) *	1,362.0	1,545.5	1,279.0	+ 2.1	– 17.8	– 20.1	– 11.2	– 15.9
Euro area (FTSE Ebloc 100) *	1,221.9	1,404.1	1,143.9	+ 2.3	– 18.5	– 21.2	– 12.2	– 16.9
World (MSCI) †	1,065.4	1,249.2	1,014.6	+ 2.5	– 26.2	– 26.5	na	– 13.3
World bond market (Salomon) ‡	434.5	447.8	434.3	– 0.6	+ 0.8	– 5.5	na	– 2.2

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms. §Rebased.

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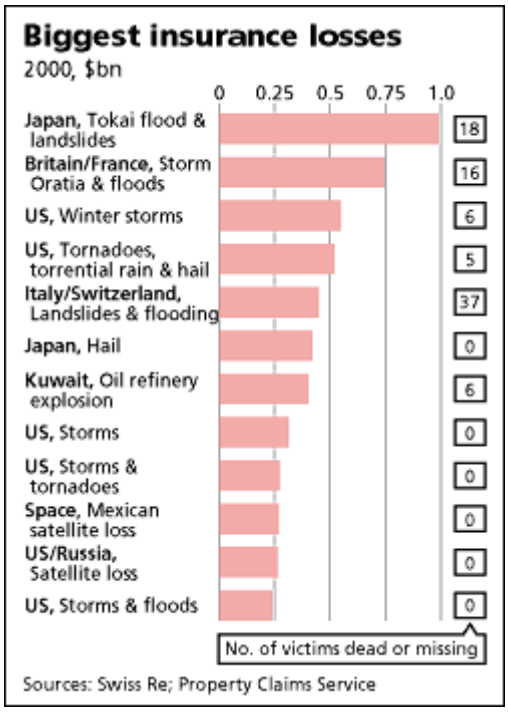
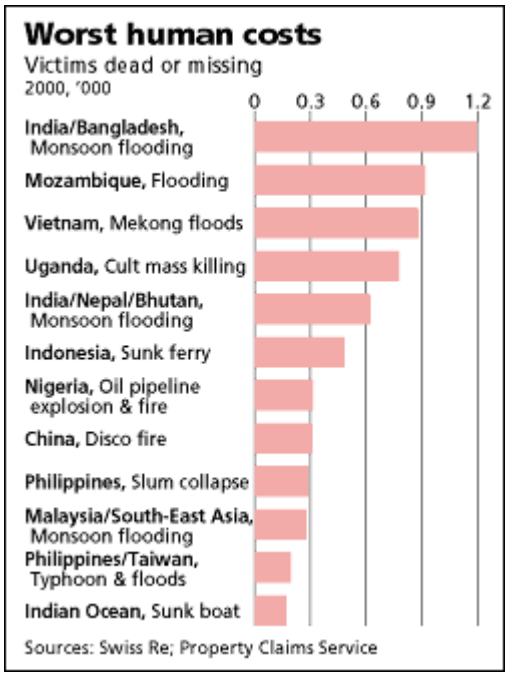
CATASTROPHES

Mar 29th 2001
From The Economist print edition

Last year was a relatively good one for disaster insurers. According to Swiss Re, a big reinsurance company, man-made and natural calamities cost the insurance industry $10.6 billion, one-third of the bill for 1999. However, it was one of the worst years ever for flood damage, which accounted for almost one-quarter of the costs and both of the two biggest catastrophes. Man-made disasters cost $3 billion last year. Industrial fires accounted for almost half of this amount. The loss of satellites in space contributed losses of about $1 billion.



Insured damage has little connection to costs in human lives. Of the 12 worst catastrophes ranked by death toll, none involved big insurance losses. All were in developing countries, where high property values and insurance are rare. By contrast, six of the 12 most expensive disasters cost no lives; most affected only rich economies.



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FINANCIAL MARKETS

Mar 29th 2001
From The Economist print edition

The Istanbul market fell by 11.8% as investors lost confidence in the government's ability to pull the country out of economic turmoil. Profit warnings in America helped to knock 4.3% off share prices in Singapore. Poor liquidity and a shortage of buyers led to a share-price plunge of 3.4% in Cairo.

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Mar 28th		Dec 31st 2000	
	Mar 28th	year ago	Mar 28th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.9	5.40	2,208.4	+ 1.8	+ 0.7	+ 0.7
Hong Kong	7.80	7.79	11.2	4.85	12,851.4	− 2.3	− 14.9	− 14.9
India	46.6	43.6	66.9	8.50	3,788.2	− 0.1	− 4.6	− 4.5
Indonesia	10,390	7,425	14,907	15.52	375.2	+ 1.7	− 9.9	− 16.1
Malaysia	3.80	3.80	5.45	3.30	660.8	− 1.8	− 2.8	− 2.8
Philippines	49.2	40.9	70.6	11.13	1,451.6	− 1.4	− 2.9	− 1.3
Singapore	1.80	1.71	2.58	2.25	1,654.3	− 4.3	− 14.1	− 17.1
South Korea	1,301	1,113	1,867	5.70	528.8	− 0.7	+ 4.8	+ 1.9
Taiwan	32.6	30.7	46.8	4.70	5,819.4	+ 3.5	+ 22.7	+ 24.4
Thailand	44.5	37.8	63.8	2.50	287.1	− 1.4	+ 6.7	+ 4.0
Argentina	1.00	1.00	1.43	10.19	454.0	+ 6.0	+ 8.9	+ 8.7
Brazil	2.12	1.73	3.04	15.85	14,631.9	− 1.5	− 6.2	− 13.7
Chile	591	504	848	3.88*	4,899.2	− 0.8	+ 0.6	− 2.4
Colombia	2,305	1,956	3,306	12.96	810.4	− 1.0	+ 13.7	+ 10.3
Mexico	9.55	9.28	13.7	16.06	5,700.4	− 1.2	+ 0.9	+ 1.5
Peru	3.52	3.47	5.0	9.88	1,268.4	− 0.3	+ 5.0	+ 5.2
Venezuela	707	668	1,014	10.99	7,429.2	− 2.7	+ 9.3	+ 8.3
Egypt	3.88	3.43	5.57	9.10	6,064.1	− 3.4	− 20.9	− 20.7
Israel	4.21	4.00	6.04	5.51	395.9	+ 0.8	− 20.0	− 23.2
South Africa	8.00	6.45	11.5	10.57	8,402.1	− 0.9	+ 0.9	− 4.5
Turkey	1,003,000	583,710	1,439,004	76.00	7,614.8	−11.8	− 19.3	− 46.1
Czech Republic	38.7	37.0	55.5	5.01	444.0	− 0.1	− 7.2	− 9.7
Hungary	300	267	431	11.74	6,692.2	+ 0.2	− 14.7	− 19.8
Poland	4.10	4.01	5.88	17.76	14,792.0	+ 0.6	− 17.1	− 16.4
Russia	28.8	28.4	41.3	25.00	173.5†	− 0.8	+ 21.6	+ 21.1

*Inflation adjusted. †In dollar terms.

Sources: National statistics offices, central banks and stock exchanges; Primark Datastream; EIU; Reuters; Warburg Dillon Read; J.P. Morgan; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Bank Ekspres; Deutsche Bank; *Russian Economic Trends*.

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ECONOMY

Mar 29th 2001
From The Economist print edition

Argentina's fourth-quarter GDP fell by 2.0% over a year earlier. For 2000 as a whole, GDP shrank by 0.5%, more than expected. Chile's GDP rose by 4.5% in the year to the fourth quarter. Growth in 2000 rose to 5.4%, after a contraction in 1999. Hong Kong's consumer prices fell by 2.1% in the 12 months to February, continuing more than two years of deflation.

	% change on year earlier			Latest 12 months, $bn		Foreign reserves*, $bn	
	GDP	Industrial production	Consumer prices	Trade balance	Current account	Latest	Year ago
China	+ 7.3 Q4	+10.2 Feb	+ 1.6 Feb‡	+23.6 Feb	+15.7 1999	168.3 Dec	157.7
Hong Kong	+ 6.8 Q4	− 0.1 Q3	− 2.1 Feb	−11.7 Feb	+ 9.4 Q3	114.3 Feb	93.1
India	+ 6.0 Q2	+ 2.8 Jan	+ 3.2 Jan	− 7.8 Jan	− 5.4 Q4	39.0 Feb	33.5
Indonesia	+ 5.2 Q4	+ 4.5 Q4‡	+ 9.1 Feb	+28.0 Jan	+ 6.1 Q1	22.6 Dec	26.5
Malaysia	+ 6.5 Q4	+12.5 Jan	+ 1.6 Feb	+15.6 Jan	+ 9.7 Q3	29.1 Jan	32.2
Philippines	+ 3.6 Q4	− 2.4 Jan	+ 6.7 Feb	+ 7.3 Jan	+ 8.2 Nov	13.1 Dec	13.2
Singapore	+10.5 Q4	+13.3 Feb	+ 2.0 Jan	+ 3.7 Feb	+21.8 Q4	80.1 Dec	76.8
South Korea	+ 4.6 Q4	+ 0.1 Jan	+ 4.2 Feb	+12.9 Feb	+11.3 Feb	95.3 Feb	79.7
Taiwan	+ 4.1 Q4	+ 9.1 Feb	− 1.0 Feb	+ 9.1 Feb	+ 9.6 Q4	110.1 Feb	113.6
Thailand	+ 3.1 Q4	+ 3.5 Jan	+ 1.5 Feb	+ 4.0 Jan	+ 7.8 Jan	32.2 Jan	31.9
Argentina	− 2.0 Q4	− 0.1 Feb	− 1.7 Feb	+ 1.3 Jan	−10.5 Q3	25.2 Dec	26.3
Brazil	+ 4.4 Q4	+11.2 Jan	+ 5.9 Feb	− 1.1 Feb	−26.4 Feb	32.5 Dec	34.8
Chile	+ 4.5 Q4	− 2.3 Jan	+ 3.8 Feb	+ 1.3 Feb	− 1.0 Q4	14.7 Dec	14.4
Colombia	+ 2.1 Q4	+ 5.0 Jan	+ 8.1 Feb	+ 2.3 Dec	+ 0.2 Q3	9.3 Feb	8.1
Mexico	+ 5.1 Q4	+ 1.9 Jan	+ 7.1 Feb	− 8.7 Feb	−17.7 Q4	39.4 Jan	33.6
Peru	− 1.6 Jan	− 5.1 Dec	+ 3.6 Feb	− 0.4 Jan	− 1.7 Q4	8.4 Dec	8.7
Venezuela	+ 3.3 Q3	na	+ 12.7 Feb	+ 6.6 Oct	+13.4 Q4	13.9 Jan	12.3
Egypt	+ 6.5 2000†	+ 9.4 2000†	+ 2.3 Dec	−10.4 Q4	− 0.8 Q4	13.1 Nov	15.0
Israel	+ 3.0 Q4	+10.7 Jan	+ 0.3 Feb	− 7.1 Feb	− 0.7 Q3	23.4 Feb	22.1
South Africa	+ 3.3 Q4	+ 5.7 Jan	+ 7.8 Feb	+ 3.4 Jan	− 0.5 Q4	6.1 Jan	6.4
Turkey	+ 7.4 Q3	+ 6.5 Jan	+ 33.4 Feb	−26.5 Dec	− 9.8 Dec	20.0 Dec	23.3
Czech Republic	+ 3.9 Q4	+13.8 Jan	+ 4.0 Feb	− 3.4 Feb	− 2.3 Q4	13.0 Jan	12.8
Hungary	+ 4.2 Q4	+ 6.4 Jan	+ 10.4 Feb	− 2.5 Jan	− 1.9 Jan	10.8 Jan	11.2
Poland	+ 2.4 Q4	− 0.1 Feb	+ 6.6 Feb	−11.0 Jan	− 9.8 Jan	25.3 Dec	24.5
Russia	+ 7.7 2000	+ 0.8 Feb	+ 22.3 Feb	+61.0 Dec	+43.8 Q3	25.9 Jan	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*						
Pakistan	+ 3.9 1999†	+ 4.6 Jul	+ 4.6 Feb	− 1.9 Jan	− 2.5 1999	1.5 Dec	1.5
Saudi Arabia	+ 0.4 1999	na	− 1.3 Dec	+24.9 1999	+ 0.4 1999	19.6 Dec	17.0

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Text refers only to the first 25 countries listed

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